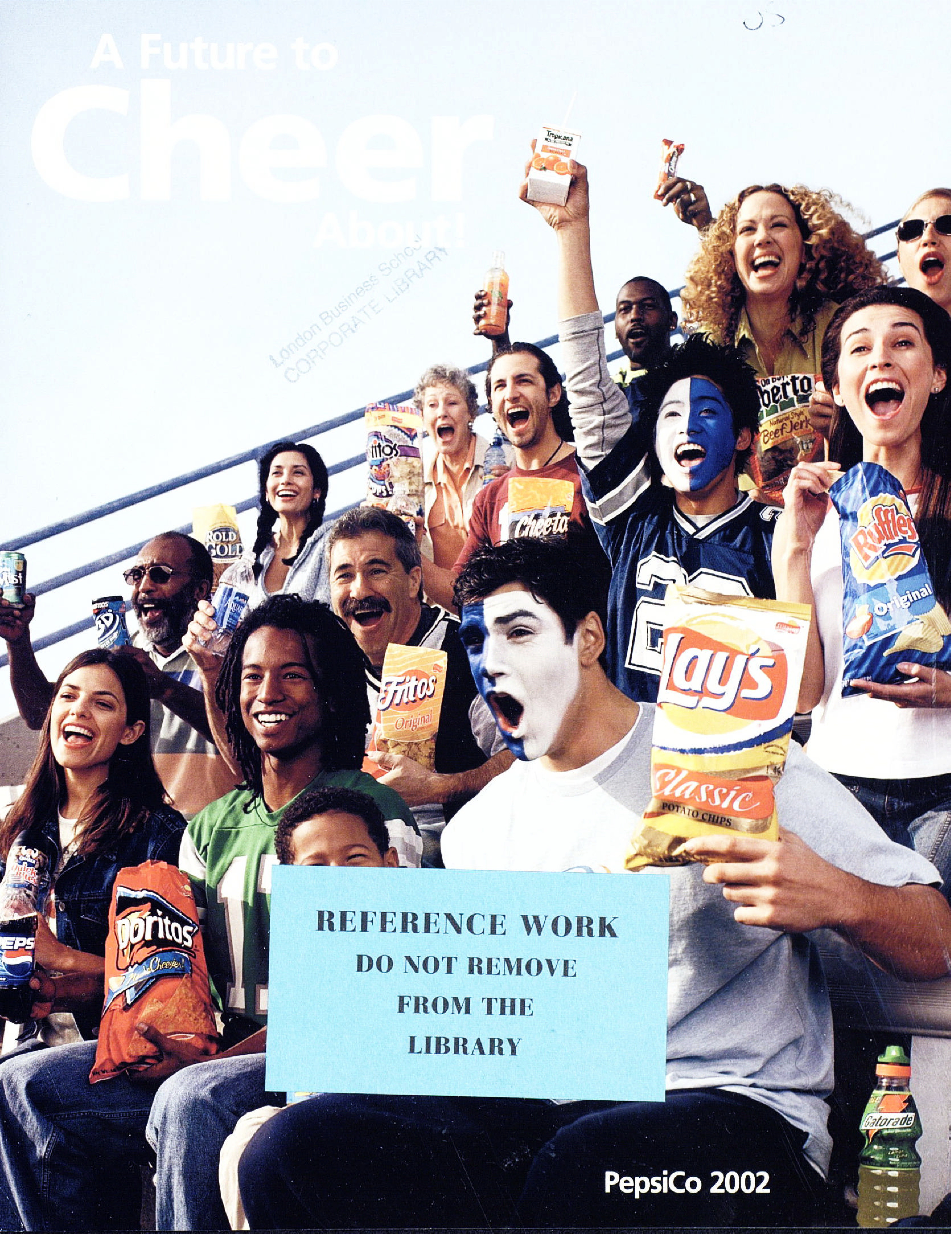
A Future to Cheer About!



PepsiCo 2002

Financial Highlights

PepsiCo, Inc. and Subsidiaries
($ in millions except per share amounts; all per share amounts assume dilution)

	2002	2001	%Chg[(a)]
Summary of Operations			
Division net sales [(b)]	**$25,005**	$24,074	4
Division operating profit [(b)]	**$5,316**	$4,784	11
Net income			
Reported	**$3,313**	$2,662	24
Comparable [(c)]	**$3,503**	$3,105	13
Net income per common share			
Reported	**$1.85**	$1.47	26
Comparable [(c)]	**$1.96**	$1.72	14
Other Data			
Net cash provided by operating activities	**$4,627**	$3,820	21
Common share repurchases	**$2,192**	$1,716	28
Dividends paid	**$1,041**	$994	5
Long-term debt	**$2,187**	$2,651	(18)
Capital spending	**$1,437**	$1,324	9

(a) Percentage changes are based on unrounded amounts.

(b) For additional information on net sales and operating profit, see Note 1 to our consolidated financial statements.

(c) Comparable amounts exclude the costs associated with our merger with The Quaker Oats Company and other impairment and restructuring charges. In addition, 2001 amounts reflect the adoption of Statement of Financial Accounting Standards No.142 and the impact of the consolidation of our European snack joint venture as if they had occurred at the beginning of 2001. For additional information on these items, see "Items Affecting Comparability" in Management's Discussion and Analysis. The comparable information does not comply with and should not be considered an alternative to United States Generally Accepted Accounting Principles.

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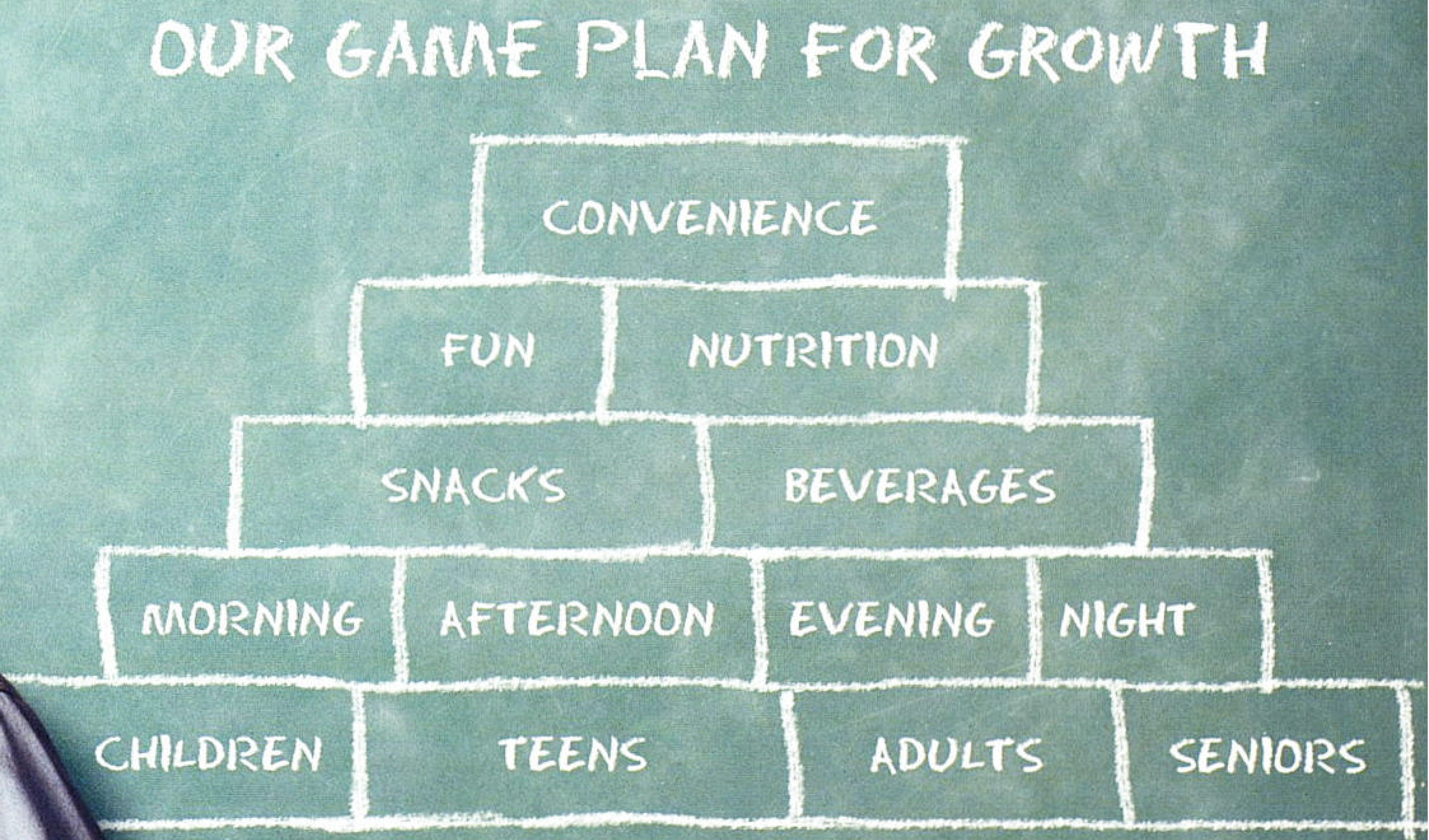
Dear Fellow Shareholders:

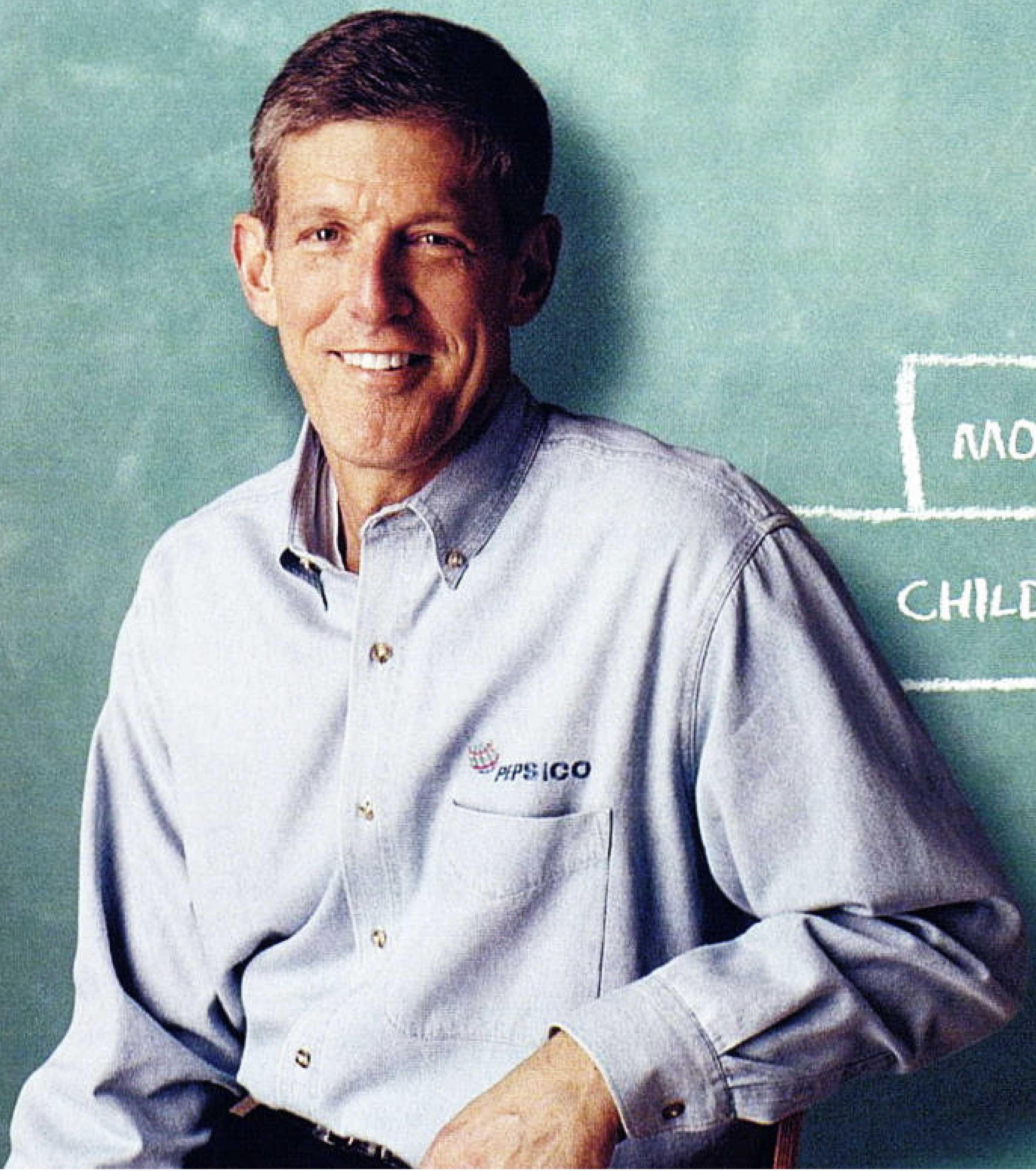
I am pleased to report that PepsiCo made solid progress in 2002 and posted strong financial results:

- Reported earnings per share grew 26% and comparable earnings per share grew 14%, as we marked our 13th consecutive quarter of 13%-or-better growth.
- Division operating profit grew 11%.
- Volume and division net sales grew 4%.
- Return on invested capital rose more than 2 points to 28% on a comparable basis.
- Operating cash flow grew 27% to $3.3 billion, after capital spending and contributions to our pension plans.
- We repurchased 53.4 million shares of PepsiCo stock.
- Annual cost savings from the Quaker merger reached approximately $250 million, exceeding our target.
- We gained market share in all our key categories.

We took important steps to strengthen our organization:

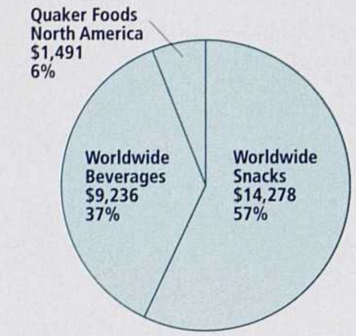
- We focused our most senior leaders squarely on our greatest opportunities.
- We moved beyond the boundaries of our traditional product portfolios and ramped up activity at our convenient foods unit to develop products that leverage the brand and distribution strengths of Frito-Lay and Quaker.
- We forged strategic partnerships with respected medical and fitness experts to address growing consumer interest in nutrition and wellness — and named a senior executive to facilitate and advance our efforts.
- We expanded our diversity efforts to include training for every U.S. salaried employee in an effort to make PepsiCo a better workplace and more competitive in the marketplace.



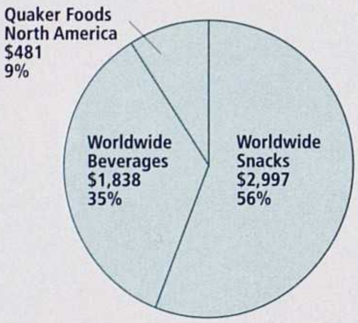


Steve Reinemund
Chairman and Chief Executive Officer

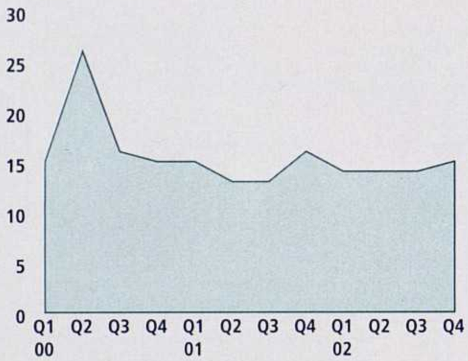
Division Net Sales
Total $25,005
$ In Millions



Division Operating Profit
Total $5,316
$ In Millions

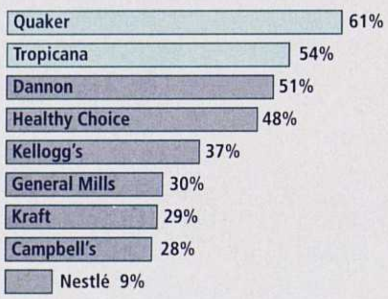


Comparable Earnings Per Share
% Growth



We marked our 13th consecutive quarter of double-digit growth in comparable earnings per share.

Consumers' Rating of the Healthiest Brands
% Consumers who consider the brand healthy



Consumers consider PepsiCo's Quaker and Tropicana brands the healthiest of all brands, putting us in a good position to capture opportunities in wellness.

Despite all our momentum, we couldn't buck a bear market. The total return on PepsiCo stock for the year was negative 12%. Although we beat both the Standard & Poor's 500 and the Dow Jones Industrial Average, our stock performance was disappointing. I'm nonetheless very optimistic that when the market recovers, PepsiCo's strong, consistent results will be reflected in our stock.

Looking back on the last year, I am proud of our accomplishments. We extended our record of strong earnings growth despite challenges that went well beyond the usual competitive pressures and consumer demands. We were also tested by deteriorating economies in Latin America, a Middle East boycott of U.S. brands, consolidating retailers and fewer shoppers in stores.

I expect these kinds of challenges will remain with us for some time. But they will not keep us from delivering healthy, consistent long-term growth.

As our cover suggests, PepsiCo has a future to cheer about. In fact, our merger with Quaker has positioned us to succeed as never before.

PepsiCo remains the clear global leader in snacks. And we are still a very strong number two in the global soft drink industry. But today PepsiCo also has other strengths that are less well known:

- We rank among the world's largest packaged food and beverage companies.
- With Tropicana and Quaker, we own the two brands United States consumers associate most closely with health and nutrition.
- We have a leading share of breakfast categories in the United States.
- Our broad portfolio of drinks — including soft drinks, bottled water, juices, isotonics and teas — makes PepsiCo #1 in "refreshment beverages" in measured channels in the United States.
- Our distribution capabilities — direct-store-delivery, a broker-warehouse system and a foodservice and vending system — give us reach and flexibility no competitor can match.
- Our brands drive more sales growth, profit growth and cash flow for big U.S. retailers than those of any other food or beverage manufacturer.

Today our businesses are squarely focused on the most important consumer trend in decades: the demand for ***convenience***.

People are short of time. They want foods and drinks that are convenient — to buy, to carry, to store, to open and to consume. They want foods and drinks that offer fun. Or nutrition. Or both. And they always want them to taste great.

The demand has driven industry sales of convenient food and beverages in the United States alone to some $160 billion. That's growing much faster than the industry overall. Equally important, our particular convenience categories — snacks and beverages — have a long history of growth that we fully expect to continue.

PepsiCo has established a very strong position within the convenience category. We already have the leading share of convenient food and beverage sales in the United States. More than 95% of our portfolio is focused on convenience.

We have the capability to capture ***a lot more*** of this opportunity. The combination of our strong brand portfolio, our vast and flexible distribution, our continuous innovation and our global presence gives us an unparalleled foundation for growth. And most of all, we have talented, passionate associates around the world who are committed to growing our business.

An Extraordinary Brand Portfolio

Established, trusted brands can be powerful vehicles for growth. PepsiCo has 15 brands that each generate $1 billion or more in annual retail sales. That's more than any other company.

Moreover, our portfolio has very broad reach, appealing to consumers of all ages — morning, noon and night. And many of our brands have proven their appeal around

the world. Pepsi-Cola, for example, is sold in well over 100 countries, and Lay's brand potato chips are sold in more than 75.

Our brands also satisfy a wide range of needs. Whether consumers want fun, refreshment, nutrition or some combination, we can provide it ***conveniently***. While our roots are in "fun" foods and drinks, today more than 30% of our volume comes from products that provide health or nutrition benefits or contain less fat or fewer calories than their original counterparts — what we call "better-for-you" products.

The strength and breadth of our brand portfolio give us the ability to pursue growth wherever consumer trends may go. And the vast size of our portfolio — accounting for retail sales of more than $65 billion — gives us tremendous scale leverage. We can purchase, manufacture, distribute and advertise very efficiently.

Flexible Distribution

Consumption of our brands is highly elastic. If we make it easy for people to buy more of our products, often they do. So we work to make our brands available everywhere someone might want them. But we have to do it ***profitably***. A distribution system that's cost-efficient for one product may not work for another.

PepsiCo has another big advantage. Today we have not one, but ***several*** large-scale distribution systems, enabling us to cost-effectively distribute a wide range of products:

- Direct-store-delivery (DSD) systems at Frito-Lay and through Pepsi-Cola bottlers are ideal for products that move through stores quickly, require delicate handling or benefit from careful merchandising. These systems reach more than 2 million retail customers each week, from the largest club stores to the smallest "mom-and-pop" outlets.
- A large broker-warehouse distribution system moves Quaker, Gatorade and Tropicana products to large retail outlets at a low cost — and allows us to test new products that are too small for economic distribution via DSD.
- A national distribution system focused on foodservice and vending accounts — one of the largest of its kind — gives Frito-Lay, Quaker, Gatorade and Tropicana access to a growing channel that few competitors can serve efficiently.
- A small but growing "chilled" DSD system distributes products requiring refrigeration. Created for Tropicana juices, it could carry many other products as well.
- Hybrid systems, using elements of our various distribution systems, enable us to reach large numbers of retailers in emerging markets like India and China.

Continuous Innovation

Innovation drives our growth. New products and packages excite consumers and keep brands relevant. New products and packages create an incentive for retailers to provide more display space. And consumers will pay more for something that's new or provides a benefit not available elsewhere.

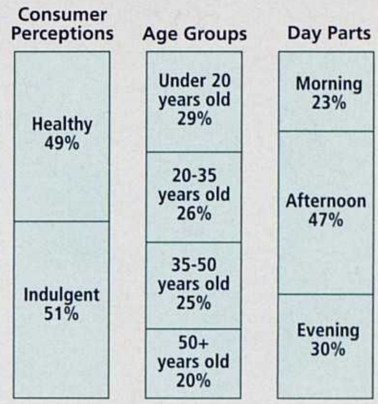
Our innovation track record is strong. More than $4.5 billion of our sales in 2002 came from products or packages that were introduced in the last three years.

We've accelerated our innovation to continue driving growth. In 2002, an exciting stream of innovation came from all our businesses — from Pepsi Blue and Baked Doritos to Go Snacks, Crisp'ums baked crisps and Propel Fitness Water. We are investing to keep a stream of innovation flowing year after year.

Foundation for Global Growth

With the broad appeal of our brands, almost every market on earth represents potential growth. Yet today only about 30% of our revenues and 20% of operating profits come from outside the United States and Canada. That's a world of opportunity.

Balanced Portfolio



Our portfolio includes brands that satisfy a range of needs from fun foods to healthier alternatives, appeal to consumers of all ages and are enjoyed throughout the day.

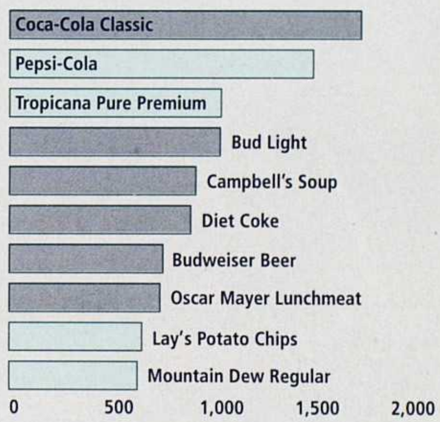
World's Leading Food and Beverage Companies

$ Sales In Billions

Food and Beverage sales. Excludes food ingredients, pet and agricultural products. Includes fruit and dairy.

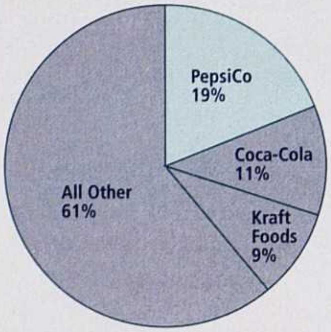
Largest Food Brands in U.S. Supermarkets

$ Retail Sales In Millions



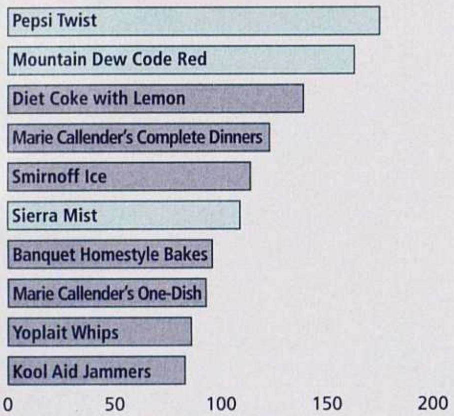
Four PepsiCo brands rank among the best-selling of all food brands in U.S. supermarkets, the largest distribution channel.

U.S. Convenient Food and Beverage Sales
% Retail Sales



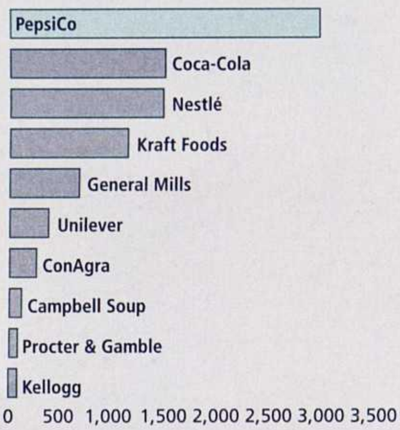
PepsiCo has the leading share of convenient food and beverage sales.

Top Food and Beverage New Products
$ In Millions
Brand's initial 52 weeks of sales in supermarkets, drug stores and mass merchandisers combined.



PepsiCo is a leader in innovation, which is a powerful driver of growth. Three of the 10 top new food and beverage products are Pepsi-Cola brands.

Top Contributors to U.S. Supermarket Growth
$ Sales In Millions
Growth 1997-2002
Top supermarket suppliers in sales growth.



PepsiCo is the #1 driver of supermarket sales growth, outperforming our closest competitor by nearly two times. This helps our retail customers achieve their growth goals.

But every market is different, economically and demographically. A "one-size-fits-all" approach doesn't work. Nor can we count on "buying our way in." We have to be able to build businesses brick by brick.

In the snack business, that can take years, starting with getting farmers to grow the varieties of potatoes and corn we need. Here, too, we have an advantage. We can choose from among several business models that have already been proven in different types of markets — ranging from emerging to developed. Our rapidly growing snack business in China, for example, combines elements of our highly successful Sabritas business in Mexico and our market-leading Walkers business in the United Kingdom. Similarly, some of our smaller European businesses are modeled after Walkers.

We also have various models for building beverage businesses internationally, which vary according to the level of market development, the competitive landscape and other factors.

Our Growth Imperatives

Fundamental strengths — like great brands, strong distribution, innovation capabilities and global experience — can be big advantages. But we must use them wisely — and focus our energy and resources on the greatest opportunities. To that end, we are focusing on four strategic imperatives:

- Establishing PepsiCo as the #1 refreshment beverage company in the United States and Canada — a goal already attained in measured channels in the United States.
- Growing Frito-Lay's core salty snack business and expanding further into "convenient foods," while expanding its direct-store-delivery system.
- Leveraging the combined scale of our beverage and snack operations outside of the United States and Canada to dramatically extend our global capability.
- Implementing initiatives across PepsiCo that accelerate innovation, improve operating effectiveness and cut costs to fuel growth.

We have shaped our organization to support these priorities. In 2002, Pepsi-Cola, Gatorade and Tropicana North American operations were united in a new division called PepsiCo Beverages & Foods, led by Chairman and CEO Gary Rodkin, former president and CEO of Pepsi-Cola North America. The unit also includes Quaker Foods, which shares the Gatorade/Tropicana distribution system.

In early 2003, we continued the process:

- Al Bru, president and CEO of Frito-Lay North America (FLNA), was appointed chairman and CEO of the division. He will devote more time to ensure FLNA simultaneously grows salty snacks, develops products outside salty snacks and expands its DSD capabilities.
- John Compton, senior vice president of marketing for FLNA, was named president of a new FLNA unit focused 100% on growing salty snacks.
- Mike White, president of Frito-Lay Europe/Africa/Middle East, was appointed chairman and CEO of PepsiCo International, combining our snack and beverage businesses outside the United States and Canada.
- Indra Nooyi, PepsiCo president and chief financial officer, added responsibility for PepsiCo-wide innovation and cross-divisional productivity initiatives.
- Al Carey, chief operating officer of PepsiCo Beverages & Foods, was named president of PepsiCo Sales, as part of a broadened effort to leverage the combined strength of our businesses in the marketplace.

People

The changes we've made reflect an enduring truth about our business: Great people make for a great enterprise. With that in mind, several years ago PepsiCo stepped up

efforts to make the company a more diverse and inclusive workplace through major new initiatives.

It is a direct response to demographic changes in some of our largest markets. In the United States, for example, large minority populations — including African Americans and Hispanics — are growing faster than the majority population. Each year they constitute a larger share of our potential consumers, retail customers and employees.

As these populations change, we want to continue attracting and retaining the most capable people, regardless of their gender, race, religion or ethnicity — and more than ever we need people who understand the changing needs of our consumers and customers. It is vitally important that we provide a welcoming workplace where all kinds of people feel they can succeed.

We approach diversity and inclusion as any business imperative. We create multi-year strategic plans. We have goals. And our executives' compensation is based, in part, on their progress toward those goals. We have senior division executives focused on advancing diversity. As a "reality check," we share our efforts with, and solicit opinions from, external ethnic advisory boards.

In 2002, we launched the first phase of a multi-year education effort: a day-and-a-half diversity/inclusion training session for all our salaried employees in the United States. Additional programs will follow.

As a result of our efforts, PepsiCo is a measurably more diverse company than it was a few years ago. However the best place to see the true value of our diversity focus may be the marketplace. A major urban marketing program aimed at African American and Hispanic consumers continues to generate strong results. Among nearly 8,000 participating retailers, sales of both Pepsi and Frito-Lay products have grown at double-digit rates in each of the two years since the program began.

Checks and Balances

In a year when corporate governance was widely debated, we took a long, hard look at our own — everything from board member independence to audit committee

Corporate Governance

Since PepsiCo's founding in 1965, our leaders have worked to ensure that every director and associate acts in a way that is responsible and ethical and advances the interests of shareholders. Today we continue to pursue that goal vigorously.

Independent Directors — Strong, independent directors are the foundation of a healthy corporation. As of May 2003, our board will consist of 12 independent outside directors and two inside directors. Each board committee has a clear public charter and includes only outside directors. In 2002, we updated committee charters and appointed an outside director to preside over executive sessions of the board. The sessions do not include inside directors.

Independent Auditors — We have always restricted the amount of non-audit services provided by our external auditors. In 2002, we adopted a formal policy that prohibits our external auditors from providing any non-audit services that are not an extension of the audit, or that do not enhance the efficiency of the audit. We will not hire anyone who has worked on our audit in the past two years.

Code of Conduct — Since 1976 PepsiCo has had a Code of Conduct that applies to every employee. The code, which covers many aspects of our business, was revised again in 2002 and distributed around the world in more than 30 languages.

Exercise and Hold Policy — Under a new policy, insiders may trade PepsiCo stock only during specific, limited time periods. Furthermore, senior executives and directors exercising PepsiCo stock options may take only 20% of their gains in cash upon exercise. They must hold the rest in PepsiCo shares for at least one year.

Stock Ownership Guidelines — Many senior executives and directors already have very substantial financial stakes in PepsiCo. However, new stock ownership guidelines established in 2002 clearly align the interests of management, directors and shareholders. Senior executives and directors are required to own PepsiCo stock worth between two-times and eight-times their base compensation, depending on their position.

Certification of Financial Statements — When the Securities and Exchange Commission required written certification of certain financial statements by chief executive officers and chief financial officers in July 2002, PepsiCo was among the first corporations to comply.

Open Communication — To promote high ethical standards across a global organization, we try to ensure that employees have clear lines of communication to inform senior management of potential issues. We have telephone "hotlines" for this purpose, which are accessible at no charge to employees.

For details on our corporate governance principles, committee charters, policies and related efforts, please visit the corporate governance section of our web site at **www.pepsico.com**

A Word of Thanks

In 2003, we mark the retirement of two very prominent members of the PepsiCo family: Roger Enrico, who will step down as a director in May, and Robert Morrison, who retired early in the year as a director and senior executive.

Each in his own way has made an enduring contribution to our success.

Roger Enrico

Roger joined PepsiCo as a Frito-Lay brand manager more than 30 years ago. He went on to lead every one of our global businesses, an achievement no other executive has matched. Ultimately, he served as chairman and CEO, and led a genuine transformation of PepsiCo, including the spin-off of restaurants and bottling, the acquisition of Tropicana and the merger with Quaker. Wherever Roger has gone, he has left an indelible mark. He has been an outspoken champion of the people on our front line who make, move and sell our products. At the same time, he has been an insightful coach, supporter and friend to me and scores of other executives across PepsiCo. To this day, I value his advice and counsel enormously.

Robert Morrison

Bob came to PepsiCo in 2001 as vice chairman, and chairman, president and CEO of Quaker, where he had led a very successful effort to build the strength of that great business. After the merger, Bob continued to move Quaker ahead, ensuring a successful integration of our companies and enabling a very smooth transition to the next generation of leadership. Having worked closely with Bob, I know why he has been so widely viewed as one of the smartest, most capable leaders in the food industry. He's been a great inspiration to the Quaker team and a huge help to me.

On behalf of the entire PepsiCo family, I want to extend our sincere thanks to Roger and Bob and to wish them the very best. — ***SSR***

practices to insider trading policies and our Code of Conduct. We adopted a number of new requirements and in some areas established policies far more stringent than those specified by law. (See Corporate Governance sidebar.)

Rules and policies are important. But they can't substitute for individual integrity. We believe that the sound governance of PepsiCo rests on hiring and retaining the right people and creating the right atmosphere. We certainly need people who are smart and competent, but above that our people must be ethical. And on the assumption that even good people make honest mistakes, we must foster an environment of checks and balances — where all actions are transparent and open to challenge. Promoting a workplace where honest people feel free to challenge ideas and practices is one of the best ways we know to achieve our goal of strong, sustainable, profitable growth while preserving the highest ethical standards.

Milestones

Among our board of directors we marked some important milestones in 2002 and early 2003:

- John Murphy retired from our board after 18 years of outstanding service.
- Dr. Daniel Vasella, chairman and CEO of Novartis, joined the board.
- Roger Enrico, our former chairman and CEO, stepped down as vice chairman as planned and will retire from the board in May.
- James Schiro, chief executive officer of Zurich Financial Services and former CEO of PricewaterhouseCoopers, was elected to our board. Jim is a respected leader whose finance and accounting insight will be of great value.
- Robert Morrison, who led Quaker at the time of our merger, retired from the board and as PepsiCo vice chairman and chairman of PepsiCo Beverages and Foods North America.

With the completion of those changes, our board will include 12 independent outside directors and two insiders. I believe this increased independence will strengthen PepsiCo and provide another sign that our shareholders' interests are being well served.

Put it all together and one thing is very clear: PepsiCo is strong and healthy and well equipped to succeed. We have a portfolio of great businesses that generate real sales and real profits. We have strong market positions and genuine competitive advantages. Best of all, we have more than 140,000 outstanding people who are dedicated to serving the interests of shareholders — with passion, commitment and integrity.

I am proud to count myself among them.

Steve

Steve Reinemund
Chairman of the Board and
Chief Executive Officer

Health and Wellness: An Opportunity

Consumer interest in diet and health and public concerns about obesity have created opportunities as well as challenges for food and beverage companies.

Interest in the link between diet and health is growing, particularly in aging populations. At the same time, children and adults are spending more hours in front of TVs, computers and video games, and fewer schools offer physical education. Since many are not active enough to burn off all the food they consume, they gain weight.

We are actively addressing both the interest in nutrition and the issue of obesity.

We believe any PepsiCo product, consumed in moderation, can be part of a healthy, balanced diet. We also know dietary needs vary by individual. An active adult may burn off 50% more calories than one who works at a computer and doesn't exercise.

To give individuals more choices, we continue to expand our range of products, an effort that goes back to one-calorie Diet Pepsi in 1964 and Reduced Fat Ruffles in 1990. We're in an excellent position to marry our heritage of convenience and great taste with nutrition — with the two healthiest food and beverage brands and the leading position in many of the healthiest food and beverage segments (water, oatmeal, juice and sports drinks).

Our portfolio includes dozens of products that, like Baked Lay's or Diet Mountain Dew, offer less fat or fewer calories — or, like Tropicana Pure Premium orange juice and Quaker Oatmeal, contribute very directly to good health and nutrition.

Today those snacks and beverages account for nearly half our new products. Some recent examples include Baked Doritos, Diet Mountain Dew Code Red, Propel Fitness Water, Reduced Fat Lay's and Aquafina Essentials. We also are improving the nutritional profile of existing products. For example, Frito-Lay North America is changing cooking oils to remove trans fatty acids from its largest corn snacks: Doritos, Tostitos, Cheetos and Santitas. (Lay's and Ruffles potato chips have been cooked using trans-fat-free oil for years.)

To help us identify ways to improve our products, and develop new products that are stronger nutritionally, we have sought advice from leading medical experts.

PepsiCo Product Portfolio
% Volume North America

Dr. Kenneth Cooper, founder of the Cooper Clinic in Dallas and the "father" of aerobics, and Dr. Dean Ornish, president and director, Preventive Medicine Research Institute in Sausalito, California, provide valuable ongoing counsel. Their early suggestions contributed to Frito-Lay's cooking oil change.

Working with Dr. Cooper, we developed diet information packages that we sent to foodservice directors in more than 500 U.S. school districts. And in 2003, millions of bags of baked Frito-Lay snacks will be imprinted with Dr. Cooper's wellness tips.

We're very actively marketing our better-for-you products. Frito-Lay is rearranging salty snack aisles in hundreds of U.S. supermarkets to create a section devoted to healthier choices. And advertising support for the PepsiCo portfolio of better-for-you products amounts to several hundred million dollars.

When it comes to promoting physical activity among youth, PepsiCo has a long history — with programs tied to Major League Baseball, Major League Soccer, the National Football League as well as Gatorade Sports Camps.

Efforts to promote activity and educate young people about the importance of fitness and a balanced diet also include:

- Contributing $16 million over 10 years to help economically-disadvantaged teens gain access to YMCA programs.
- Sponsoring the International Food Information Council's web-based "Kidnetic" program to promote healthy lifestyles in 8-12 year olds (www.kidnetic.org).
- Sponsoring the "Marathon Kids" program in Dallas, Texas, to encourage children and families to walk or run 26 miles over several months.
- Sponsoring a web-based journal called "Get Active Stay Active" where teens can track their physical activity and eligibility for the President's Council Active Lifestyle Award (www.getactivestayactive.com).
- Placing "Get Active Stay Active" advertisements in publications aimed at teens and young adults to encourage participation in YMCA activities.
- Providing $100,000 in annual grants from Gatorade to fund athletic activities for girls, in cooperation with the Women's Sports Foundation.
- Sponsoring Dr. Kenneth Cooper's syndicated weekly radio show "Healthy Living."

Frito-Lay North America

Frito-Lay North America (FLNA) produced very solid results, building on its position as the industry leader in salty snacks while pursuing new opportunities in the broader market of foods for people on the go.

Volume grew 4%; revenue increased 4%; operating profit rose by 8%.

FLNA added to its already strong market share. The fourth quarter marked our 20th consecutive quarter of maintaining or gaining share.

FLNA again demonstrated its extraordinary innovation capabilities, as new products proved powerful drivers of growth in core salty snacks. Go Snacks (in a package designed for a car cup holder) was the single largest product launch of 2002, and the introduction of Munchies snack mix gave FLNA an important foothold in the snack mix segment. Major brands such as Cheetos and Doritos also were big contributors to the growth. In addition, several smaller brands contributed robust, double-digit volume growth, including Sunchips and Rold Gold.

FLNA launched new and effective advertising in support of its Lay's and Tostitos Scoops brands and its Doritos salsa. In fact, for two weeks, a Doritos salsa commercial with singer Enrique Iglesias achieved the highest viewer recall of any commercial on television. The division also continued successful joint advertising of Lay's and Pepsi-Cola.

In recent years FLNA's portfolio has evolved to include a wide range of products, from fun snacks to convenient foods offering nutritional benefits. Today, 10% of FLNA volume comes from snacks that provide nutrition or are lower in fat, calories or sodium.

In a year of heightened consumer interest in nutrition and wellness, "better-for-you" products showed particular strength, with volume growing at more than twice the historic rate of salty snacks — and demonstrating the flexibility of FLNA to address year-to-year shifts in consumer preferences. Among the biggest sellers in the better-for-you portfolio were Baked Lay's, Baked Doritos, Baked Tostitos chips, salsa and bean dips and Quaker Chewy granola bars.

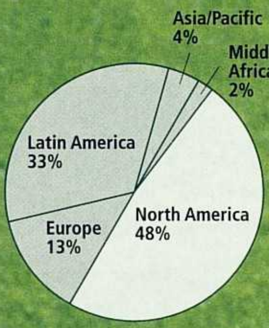
A new management structure, announced in February 2003, will help FLNA to pursue its most important strategic objectives. FLNA now has one team dedicated exclusively to building the core salty snack brands that remain the foundation of the business.

Another team focuses entirely on opportunities outside salty snacks. While FLNA has built a strong position in nuts, crackers and meat snacks in the last several years, the Quaker brand, a symbol of nutrition and goodness, has enhanced the opportunity dramatically. In 2002, FLNA introduced a variety of promising new products outside its core business, including Quaker Fruit & Oatmeal Bites, new flavors of Quaker Chewy Dipps and Crisp'ums, a sweet, crisp snack. Lots more new snackable products are on the way.

Frito-Lay International

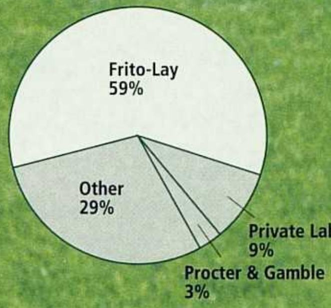
Frito-Lay International (FLI), which sells Frito-Lay snacks and Quaker foods outside the United States and Canada,

Worldwide Frito-Lay Volume by Region
% Total Volume



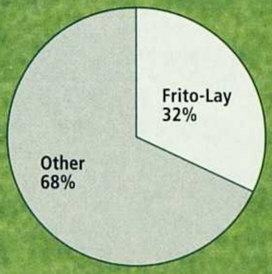
Around the world, Frito-Lay's 55,000-person sales force serves more than 2 million retail customers weekly.

U.S. Snack Chip Industry
% Volume in Supermarkets
Includes potato chips, tortilla chips, extruded snacks and pretzels. Excludes Wal-Mart.



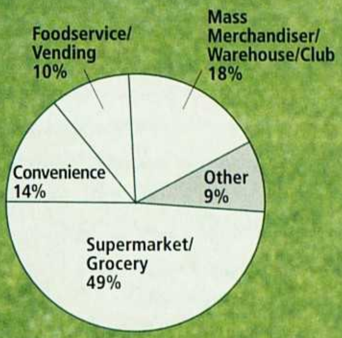
Frito-Lay has the largest share by far of the snack chip industry.

Snack Chip Industry Outside North America
% Retail Sales
Includes potato chips, tortilla chips and extruded snacks. Excludes pretzels.



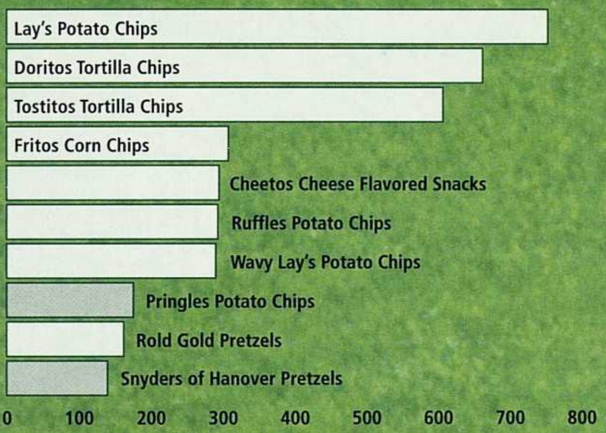
Frito-Lay, the world's largest snack chip company, accounts for nearly one-third of the market outside North America.

U.S. Frito-Lay Distribution Channels
% Gross Sales



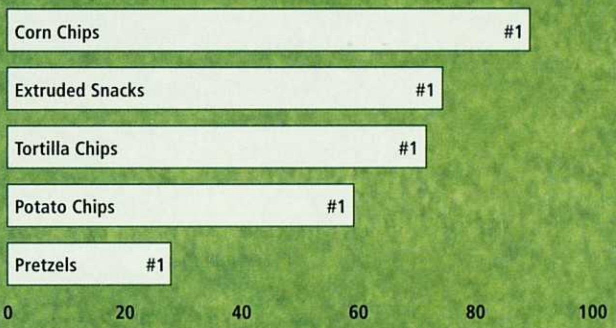
Frito-Lay has the ability to reach consumers in every distribution channel.

Top-Selling Snack Chip Brands in U.S. Supermarkets
Retail Sales $ in Millions



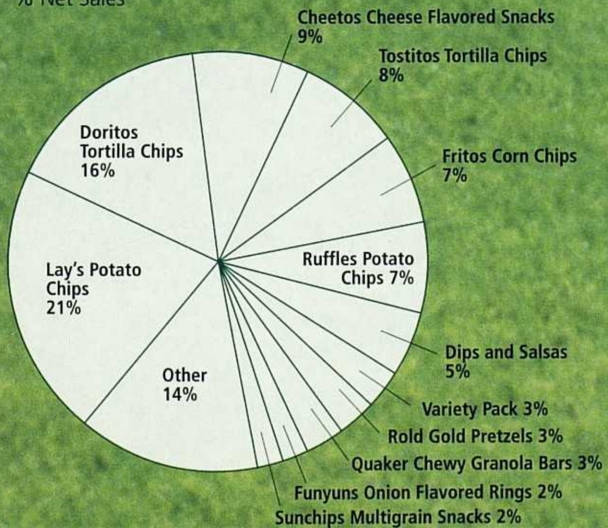
Frito-Lay sells 8 of the top 10 snack chips in supermarkets.

U.S. Frito-Lay Share of Major Snack Chip Categories
% Volume in Major Supermarkets



Frito-Lay is the leader in all major snack categories.

Frito-Lay North America Product Mix
% Net Sales

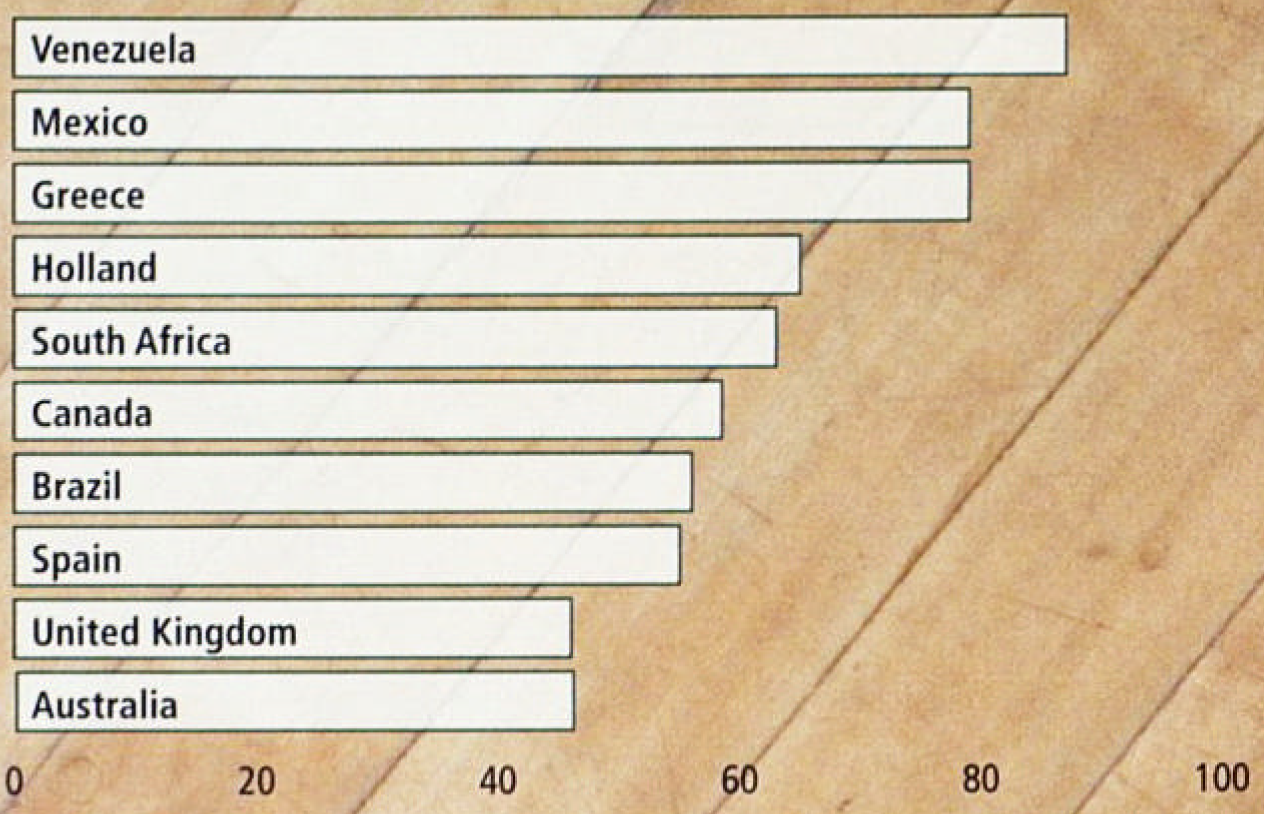


Frito-Lay offers a broad variety of snack products for every taste.

Frito-Lay Snack Chip Share in Markets Outside the U.S.

% Retail Sales

Includes potato chips, tortilla chips and extruded snacks. Excludes pretzels.



Frito-Lay has the leading share in all of its largest markets.

Frito-Lay Volume Growth

Volume Growth in Major and Emerging Markets.

Frito-Lay had strong volume growth in many established markets and even faster growth in several high-potential emerging markets.

Annual Per Capita Consumption of Snack Chips in Frito-Lay Markets

Pounds Per Capita

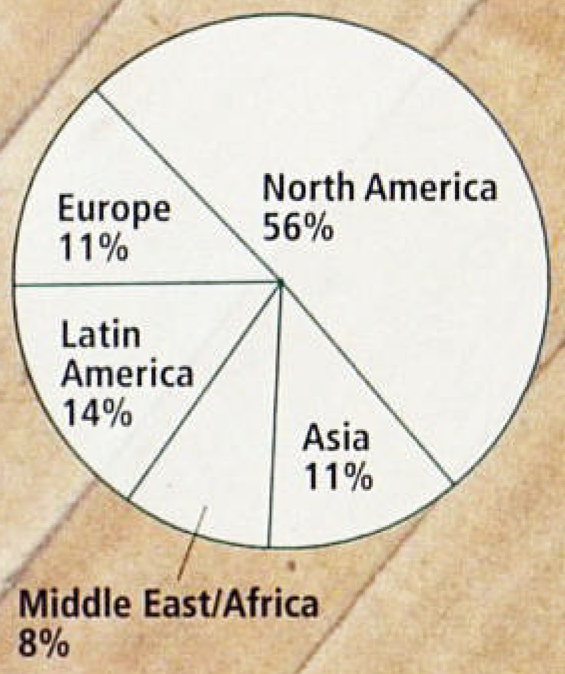
Includes potato chips, tortilla chips and extruded snacks. Excludes pretzels.

Per capita consumption of snack chips in Frito-Lay's major markets remains strong, while consumption is climbing in many less developed markets.

PepsiCo Worldwide Beverage Volume by Region

% Volume

Includes Pepsi-Cola North America, Gatorade/Tropicana North America, PepsiCo Beverages International.

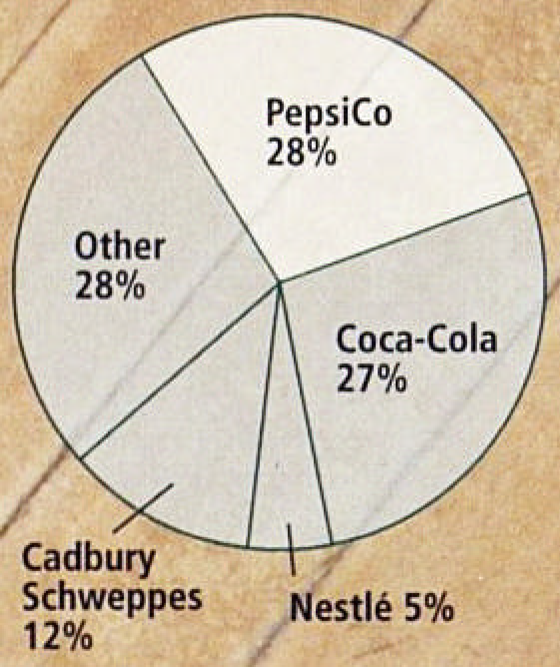


Strong volume growth in emerging markets such as China, India and Russia is building PepsiCo's presence outside North America.

U.S. Beverage Market Share

% Volume in Measured Channels

Includes carbonated soft drinks, bottled water, ambient juices and juice drinks, chilled juices and juice drinks, sports drinks, energy drinks, ready-to-drink tea and ready-to-drink coffee.

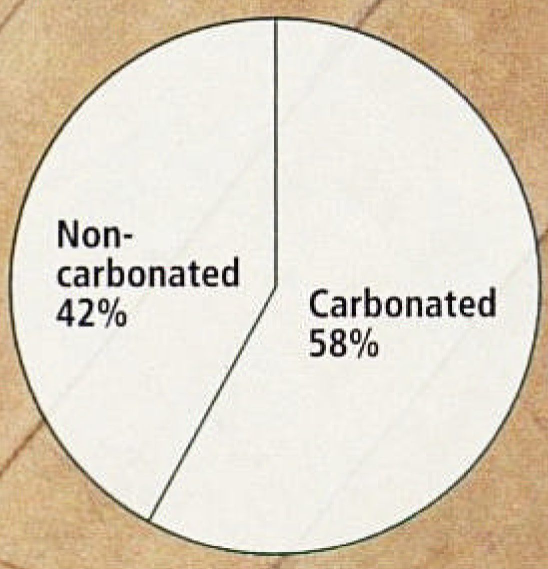


PepsiCo has the largest share of the beverage market in measured channels.

U.S. Industry Beverage Market

% Volume in Measured Channels

Includes carbonated soft drinks, bottled water, ambient juices and juice drinks, chilled juices and juice drinks, sports drinks, energy drinks, ready-to-drink tea and ready-to-drink coffee.

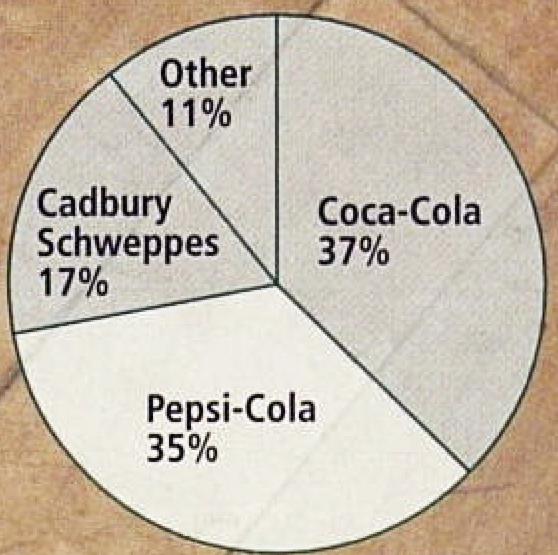


Pepsi-Cola began focusing on becoming a total beverage company in the early 1990s and today is strong in both carbonated and non-carbonated beverages.

U.S. Carbonated Soft Drink Industry

% Volume in Measured Channels

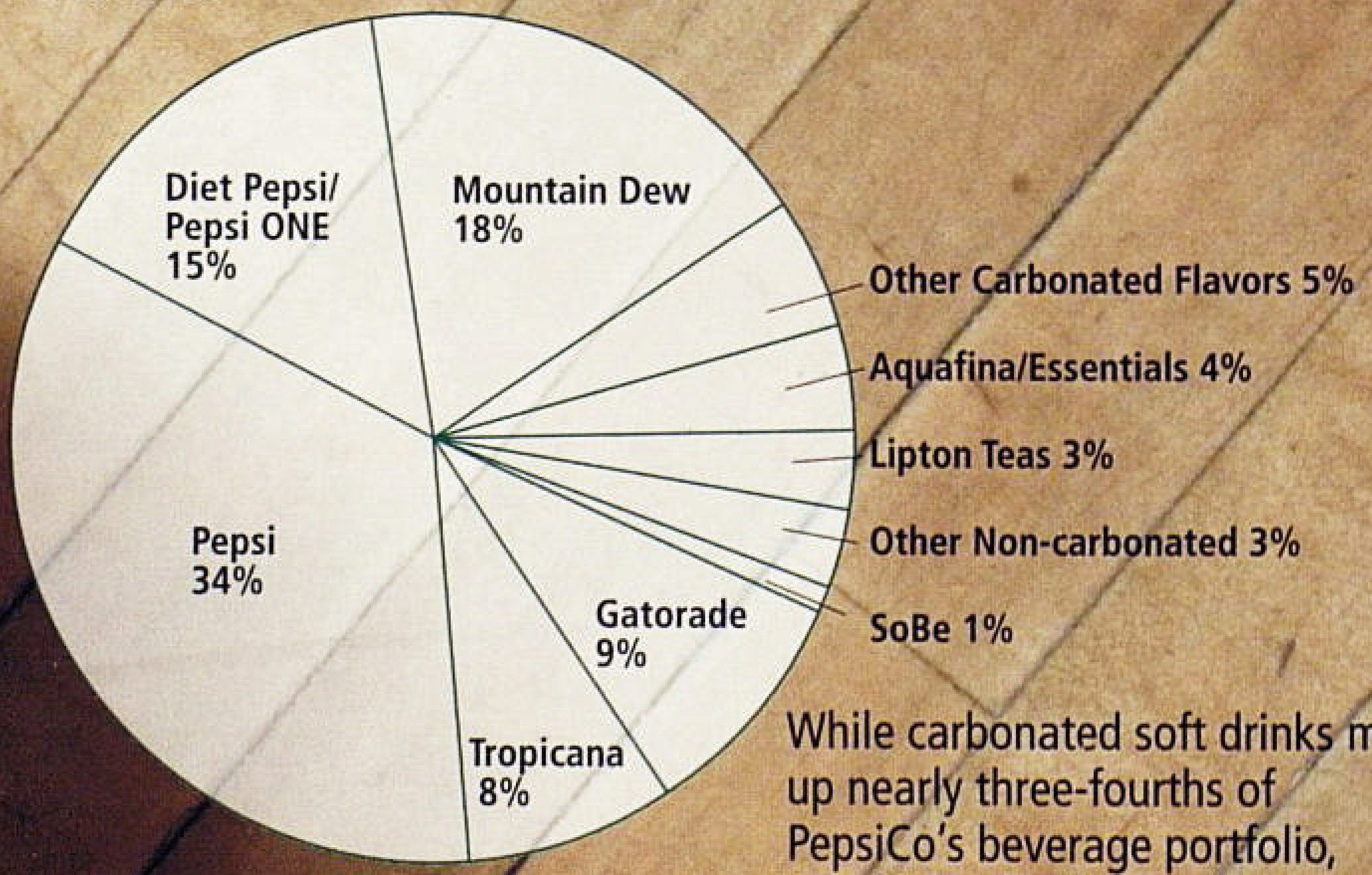
Includes combined Supermarkets, Drug Stores, Mass Merchandisers, Convenience and Gas Stores. Excludes Wal-Mart.



Pepsi-Cola accounts for more than one-third of the U.S. carbonated soft drink market.

PepsiCo Beverages North America Product Mix

% Volume



While carbonated soft drinks make up nearly three-fourths of PepsiCo's beverage portfolio, PepsiCo also offers a growing variety of non-carbonated beverages.

posted very solid growth despite the challenge of difficult conditions in several important markets.

Volume grew 6%; revenue increased 4%; operating profit rose 20%.

Three of the division's largest units, Sabritas and Gamesa in Mexico and Walkers in the United Kingdom, were the biggest contributors to the growth, as each brought excitement to the market with successful new products like Sabritas Bistro Gourmet chips, Gamesa Vuala croissants and Walkers Sensations chips.

Despite poor economic and political conditions that depressed growth in Latin America, and unfavorable currency exchange rates that reduced revenues, FLI strengthened its market position significantly. It expanded share in most of its major markets, with notable gains in the United Kingdom, Argentina, Australia and in Mexico by Gamesa.

FLI took a major step in opening its first plant in Russia, where the division saw strong volume growth and solid profitability in 2002. FLI also made important progress with the launch of Doritos chips in South Africa.

In an ongoing effort to build market presence through strategic acquisitions, FLI completed in August the acquisition of the Wotsits brand in the United Kingdom. Wotsits, a corn snack made in several flavors, ranks as the third largest snack brand in the United Kingdom.

FLI successfully integrated the Quaker business, creating synergies and positioning it for future growth.

PepsiCo Beverages North America

While each PepsiCo operating unit in itself is a large-scale business, we continually work to take greater advantage of the *combined* strength of multiple businesses. With that in mind, we combined our primary beverage brand families in the United States and Canada — Pepsi-Cola, Gatorade and Tropicana — in a single organization called PepsiCo Beverages North America (PBNA). With revenues of more than $7 billion and profits of $1.6 billion, PBNA has the leading share of refreshment beverages in measured channels in the United States.

That commanding position reflects PBNA's strong share in almost every refreshment beverage category, including the:

- Number two carbonated soft drink portfolio, led by Pepsi and Mountain Dew
- Number one brand of bottled water, Aquafina
- Number one chilled juice, Tropicana Pure Premium
- Number one sports drink, Gatorade
- Number one ready-to-drink tea, Lipton
- Number one ready-to-drink coffee, Frappuccino.

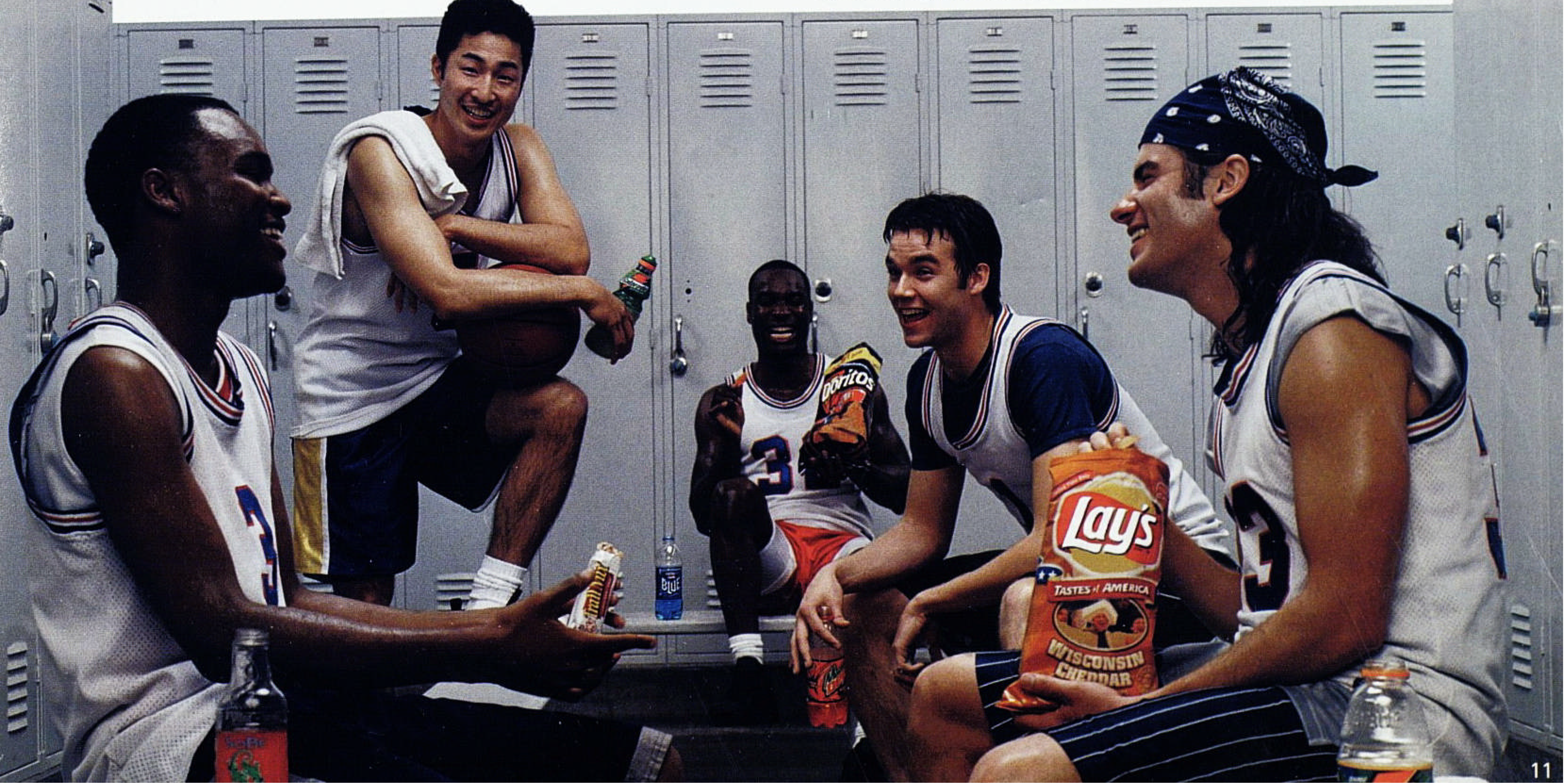
Combining the beverage units creates important benefits. It enables PBNA to build on its key strengths in product and package innovation, marketing and, particularly, distribution — with a range of go-to-market systems that provide unmatched flexibility. They include a direct-store-delivery system operated by franchised bottlers, a broker-warehouse system, a chilled direct-store-delivery system and a distribution system focused exclusively on vending and foodservice operators.

PBNA also is taking advantage of its total manufacturing strength. Combining the production needs and capabilities of Pepsi, Gatorade and Tropicana is a big opportunity to reduce costs, improve efficiency and smooth out the impact of seasonal fluctuations in demand for particular products.

Pepsi-Cola North America

Pepsi-Cola North America (PCNA) posted solid gains in the marketplace and generated healthy financial results as it showed strength across the spectrum of beverage categories.

Volume grew 2%; revenue was up 6%; and operating profit increased 12%.



PCNA's carbonated soft drinks posted modest gains in volume as consumers responded positively to product innovation. The flagship Pepsi trademark benefited from the continued success of Pepsi Twist (regular and diet Pepsi with a twist of lemon) and the introduction of Pepsi Blue (a fusion of berry and cola flavors). Innovation also advanced the Mountain Dew trademark, as Code Red was introduced in take-home channels and Diet Code Red was launched nationally. The availability of lemon-lime Sierra Mist in about 60% of the United States generated double-digit volume growth and helped build PCNA's presence in the second-largest carbonated soft drink segment.

Non-carbonated beverages, which constitute a smaller part of PCNA's beverage portfolio, extended their multi-year string of double-digit volume growth. Aquafina was the biggest contributor, as it expanded its number-one market share position in large retail outlets by more than two percentage points. The Lipton trademark also enjoyed solid gains, driven by the launch of Lipton Brisk Lemonade.

Gatorade/Tropicana North America

Gatorade/Tropicana North America (GTNA) generated healthy volume growth overall for the year, and more modest gains in revenue and profit. Volume was up 8%; revenue grew 4%; and operating profit increased 1%.

The results reflect a strong performance by Gatorade, largely offset by a slight volume decline at Tropicana in a lackluster chilled-juice category.

The Gatorade portfolio enjoyed very strong 17% volume growth for the year, led by exciting new product activity. The efforts included: the national launch of Propel Fitness Water, new Gatorade Ice, the introduction of All Stars (six-packs of 12-ounce plastic bottles of Gatorade in flavors aimed at kids), Gatorade Xtremo! (a line of flavors developed for Hispanic consumers), and new flavors of Gatorade Frost.

Tropicana made important progress in its ongoing effort to rejuvenate the chilled-juice category. Volume growth performance improved sequentially in the third and fourth quarters. Tropicana also gained market share in chilled juices and drinks. Even more important Tropicana advanced its multi-faceted strategy to restore growth. That effort includes: new packaging graphics, more focused advertising, a rationalization of its product and package offerings and reducing the depth of discounting Tropicana Pure Premium.

Tropicana also formed a new unit to focus more resources on the untapped opportunities in the vast market for shelf-stable juice products.

PepsiCo Beverages International

PepsiCo Beverages International (PBI) — whose portfolio includes the Pepsi-Cola, Gatorade and Tropicana brand families — produced very solid results by continuing to pursue a highly focused growth strategy.

Volume was up 5%; revenue increased 1%; and operating profit jumped 23%.

PBI produced these results despite political and macroeconomic challenges in many markets, including a boycott of American brands in the Middle East and particularly weak local macroeconomic conditions in Latin America.

Continued investment in large, developing countries again produced positive results in the marketplace, as PBI posted double-digit volume gains in China, India, Turkey and Russia — which together account for 40% of the world's population.

Across PBI, volume growth was driven in part by innovation in carbonated soft drinks, such as Pepsi Twist, Mirinda line extensions, Mountain Dew and Pepsi Light. Our portfolio of non-carbonated drinks showed particularly strong growth, posting a double-digit volume gain. Water was the division's fastest-growing non-carbonated category.

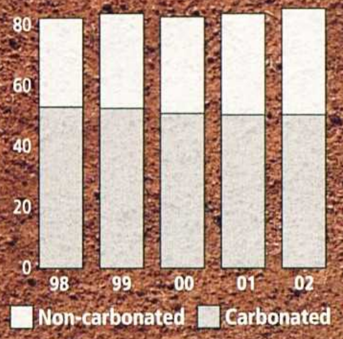
U.S. Pepsi-Cola Soft Drink Distribution Channels
% Volume

Pepsi-Cola products are broadly distributed via a strong system of independent franchised bottlers focused on production and distribution.

U.S. Top-Selling Carbonated Soft Drinks
% Share of Volume in Measured Channels
Includes combined Supermarkets, Drug Stores, Mass Merchandisers, Convenience and Gas Stores. Excludes Wal-Mart. Includes caffeine-free versions.

Nearly 70% of carbonated soft drink volume comes from 10 major brands, of which PepsiCo sells four.

U.S. Per Capita Beverage Consumption
In Gallons
Combined consumption of carbonated soft drinks, sports drinks, energy drinks, bottled water, ready-to-drink tea, ready-to-drink coffee, chilled juices and ambient juices and juice drinks.

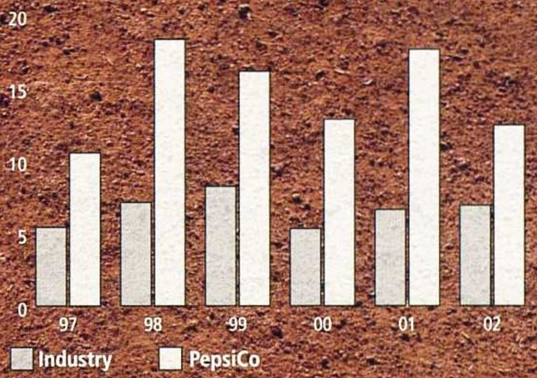


Combined consumption of carbonated soft drinks and non-carbonated beverages in PepsiCo's categories has increased.

U.S. PepsiCo Share of Beverage Categories
% Share of Category and Market Position in Measured Channels of Distribution

PepsiCo holds the number 1 or 2 position in major beverage categories.
* Does not include jug water.

U.S. Alternative Beverage Growth
Estimated % All-channel Volume Growth
Includes bottled water, sports drinks, energy drinks, ready-to-drink tea, ready-to-drink coffee, ambient juices and juice drinks.

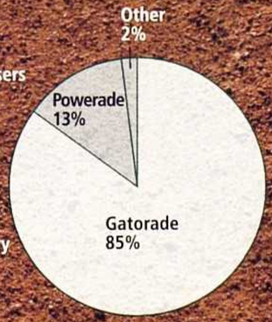


PepsiCo's alternative beverage compounded annual growth rate is more than double the rate of industry growth.

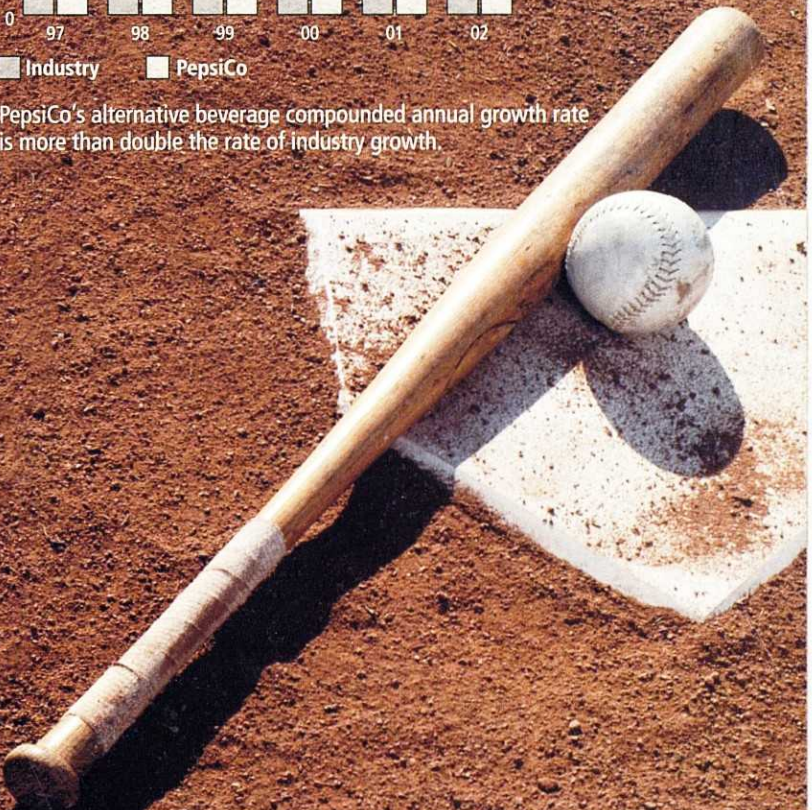
U.S. Gatorade Distribution Channels
% Volume

Gatorade Thirst Quencher sales come from a broad variety of distribution outlets.

U.S. Market Share of Sports Drink Brands
% Volume
Includes Supermarkets, Drug Stores, Mass Merchandisers. Excludes Wal-Mart.

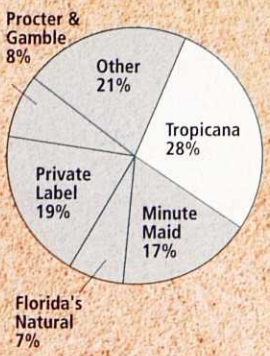


Gatorade Thirst Quencher market share is more than six times as large as its nearest competitor.



U.S. Chilled Juices and Drinks Market

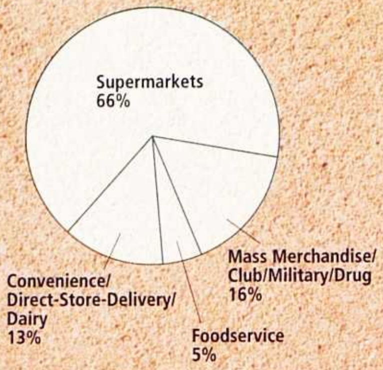
% Volume
Includes Supermarkets, Drug Stores, Mass Merchandisers. Excludes Wal-Mart.



Tropicana's share of the market is larger than the share of its two closest competitors put together.

U.S. Tropicana Distribution Channels

% Volume



Tropicana distributes its products through a variety of channels, the largest of which is supermarkets.

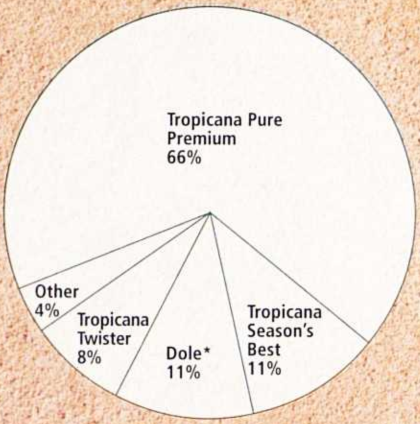
Top-Selling Chilled-Juice and Juice Drink Brands in U.S. Supermarkets

Retail Sales $ in Millions

Tropicana sells three of the top-selling chilled-juice brands in U.S. supermarkets.
*Under license.

Tropicana U.S. Product Mix

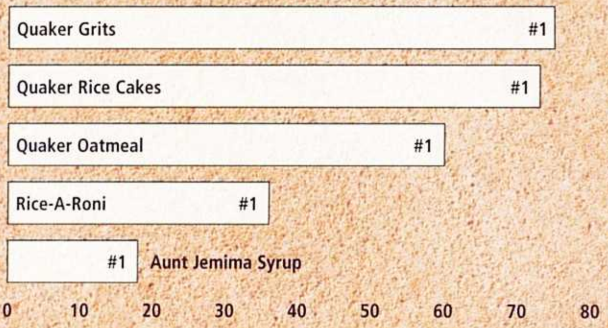
% Volume



New varieties of Tropicana Pure Premium keep the brand strong.
*Under license.

U.S. Quaker Foods Category Leaders

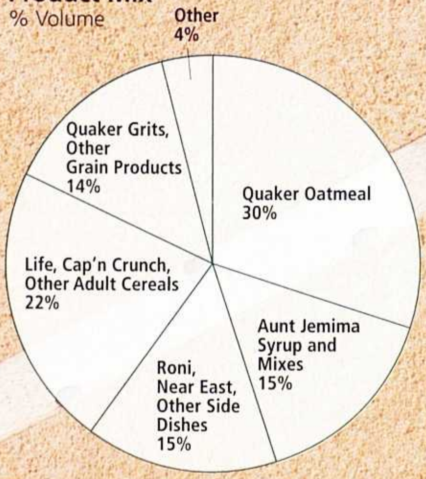
% Share Supermarket Sales



Quaker has five major brands that lead in their categories.

Quaker Foods North America Product Mix

% Volume



Quaker's portfolio of brands includes many of America's best-loved cereals and breakfast foods.

PBI also took important steps to add to the strength of its distribution system, as The Pepsi Bottling Group (PBG) acquired large franchise territories in Mexico and Turkey, adding to a portfolio that already included operations in the United States, Canada, Greece, Russia and Spain. PBG is the world's largest bottler of PepsiCo beverage brands and brings to these markets very valuable scale and operating capabilities. PBI also franchised the Gatorade business in several countries. That step reduced revenues to PepsiCo, which now reports Gatorade revenue in these markets based on concentrate sales instead of full-goods revenue. But the change will position the brand for greater future growth by putting it in the hands of strong local bottlers.

Quaker Foods North America

Quaker Foods North America (QFNA) posted solid volume gains and strong profits with its portfolio of strong, well-established brands.

Volume increased 2%; revenue grew 2%; and operating profit surged 21%.

While two of Quaker's largest brands, Quaker Oatmeal and Life cereal, led the growth, the division's portfolio also includes popular brands like Cap'n Crunch cereal, Aunt Jemima syrups and pancake mixes, Rice-A-Roni, Pasta Roni and Near East side dishes. In many categories, Quaker is the market leader.

QFNA brings valuable trademarks that directly support and advance PepsiCo's convenient food and beverage strategy and enable its leadership position in the breakfast occasion:

- The Quaker brand ranks number one among brands Americans associate with health and nutrition. The new Oatmeal Breakfast Squares shows how oatmeal can fit into a convenient, ready-to-eat product for people on the go.
- The Cap'n Crunch brand has strong appeal among kids.
- The Aunt Jemima brand has proven equity among ethnic consumers.
- Rice-A-Roni could be used to brand other kinds of convenient foods.

Quaker foods also brings to PepsiCo valuable technologies, including more than 140 patents, as well as expertise in oats and other grains.

These strengths are particularly valuable as PepsiCo works to develop new kinds of convenient, snackable foods that reflect Quaker's nutrition credentials and Frito-Lay's convenience heritage.

In an effort to focus on its larger, more profitable boxed cereals, QFNA divested its bagged cereal business in late 2002 and left the highly price-competitive value cereal segment. Bagged cereals accounted for about 5% of total QFNA revenues.

PepsiCo in the World — Corporate Citizenship

As a global company with more than 140,000 employees, we try to be sensitive not only to the interests of our shareholders, but also to those of other important constituencies as well as the natural environment in which we live and work.

Our efforts over many years have helped to build a reputation. In 2002, we ranked #1 on *Fortune* magazine's list of "Most Admired" beverage companies. We were named "Company of the Year" by *Beverage Industry* magazine. And *Global Finance* magazine listed us among the "Best Companies in North America."

Here are some of the ways we served our various constituencies in 2002.

Shareholders

To promote open communication with investors, we upgraded our web site to provide more information.

Our web site now includes sections on Corporate Governance, an investor calendar, our Code of Conduct and expanded information on Corporate Citizenship, with more on the way.

Consumers

We are dedicated to providing a wide spectrum of products that offer quality, convenience, value and great taste.

In 2002, we launched a major effort to address growing interest in nutrition and concerns about obesity. (See section on Health and Wellness: An Opportunity.) We also want to provide a little joy and fun for our consumers. Throughout the world, we are connected with activities such as music, soccer, cricket, the Academy Awards, the National Football League and The Super Bowl. Through our urban marketing program, we work closely with local organizations to improve the community and build the reputation of our company and our brands.

Employees

Our employees are our greatest strength — and the key to our remaining a dynamic, successful company.

If they grow and flourish, PepsiCo will, too. So we try to provide a welcoming and inclusive work environment where all associates have the opportunity to achieve their full potential. We provide competitive compensation and benefits as well as safe and healthy workplaces. In 2002, we improved our career development programs and improved our employee web site.

Our diversity initiatives have earned high marks. *Fortune* magazine named PepsiCo to its list of "50 Best Companies for Minorities" for the fourth consecutive year. *DiversityInc.com*, an online publication, named PepsiCo to its list of "Top Companies in Diversity." *Latina Style* magazine named PepsiCo one of the "Top 50 Best Companies for Hispanic Women to Work for in the U.S." And a survey of more than 3,500 minority students at 53 universities rated us as a "preferred employer." If you are interested in working at PepsiCo, visit our career web site at **www.pepsicojobs.com**.

Suppliers

We are committed to sharing our success with a diverse group of suppliers.

In 2002, we purchased $683 million worth of goods and services from minority-owned and women-owned companies.

Our supplier diversity programs, which began more than 20 years ago, continue to receive honors. PepsiCo was named one of "America's Top Organizations for Multicultural Business Opportunities" by *Div2000.com*; PepsiCo was honored as "Corporation of the Year" by the New York/New Jersey Minority Purchasing Council and was selected by the

Our mission

is to be the world's premier consumer products company focused on convenient foods and beverages. We seek to produce healthy financial rewards to investors as we provide opportunities for growth and enrichment to our employees, our business partners, and the communities in which we operate. And in everything we do, we strive to act with honesty, fairness and integrity.

Women's Business Enterprise National Council as one of "America's Top Corporations for Women's Business Enterprises" for 2002. The United States Hispanic Chamber of Commerce and the Hispanic Association on Corporate Responsibility included PepsiCo in their 2002 Best Practices Survey.

In addition, PepsiCo was a lead sponsor of the Rainbow/PUSH Wall Street Project, which seeks to advance minorities in business by promoting economic equality, diversity and inclusion. PepsiCo has supported Rainbow/PUSH since the early 1980s.

Communities

Through the PepsiCo Foundation and our operating divisions, we made grants totaling nearly $30 million in 2002 to more than 2,000 nonprofit organizations. This included nearly $2.9 million in contributions used to match charitable donations made by our employees.

The PepsiCo Foundation focuses on several primary areas of need, including youth, diversity and education.

Youth — The PepsiCo Foundation supports programs which encourage and promote healthy kids' lifestyle habits, as well as organizations which foster youth leadership development. In addition to the $1.6 million annual contribution to the YMCA to help economically-disadvantaged teens gain access to YMCA programs, the PepsiCo Foundation supports the Y Healthy Kids Day and the Y Teen Action Agenda.

Diversity — The PepsiCo Foundation made a $5 million multi-year leadership commitment to the National Council of La Raza for its capital campaign to support youth education and a new national headquarters. In cooperation with the King Center, PepsiCo is sponsoring a traveling fine art exhibition organized by the Smithsonian Institution called "In the Spirit of Martin: The Living Legacy of Dr. Martin Luther King, Jr."

Education — Supporting colleges and universities whose graduates represent PepsiCo's leaders of tomorrow, the PepsiCo Foundation and PepsiCo made major grants to Howard University; California State University, Los Angeles; Hampton University and University of Texas at Austin, primarily for leadership programs and scholarships.

To encourage volunteerism by our employees, the PepsiCo Foundation double-matches contributions to organizations in which they are active, and often contributes products and services as well. Our businesses also sponsor volunteer days where employees use work time to do a community project, such as creating a park. PepsiCo is involved with hundreds of community organizations, including many focused on diversity and inclusion. Our commitment to our headquarters' community was recognized by the Westchester County Chamber of Commerce, which inaugurated PepsiCo into the Westchester County Business Hall of Fame and presented us with the Corporate Citizenship Award.

Environment

Each of our businesses has programs to ensure the responsible use of resources in the manufacturing and distribution of our products.

Many of these programs and the environmental principles we follow are included in our Environmental Commitment brochure, updated in 2002, and now available on our web site. As a food and beverage company, our primary environmental challenge is packaging. In 2002, we added over a million pounds of recycled plastic to our soft drink bottles and Pepsi-Cola will use 10% recycled plastic in its bottles in the United States by 2005. With our bottlers and suppliers, we have contributed millions of dollars to support programs that encourage recycling and discourage littering.

Overall we follow the Environmental Protection Agency's (EPA) approach of Reduce, Reuse and Recycle. We also try to give back to the community wherever we operate. For example, some of our plants provide farms and a college in India with treated wastewater to irrigate their land. In 2002, the EPA recognized PepsiCo as a Commuter Choice Employers Champion for providing employees with benefits that help improve the environment and reduce the number of cars on the road.

You can find out more about PepsiCo's activities in these areas by visiting **www.pepsico.com.**

PepsiCo's World of All-Star Products

PepsiCo's line-up includes more than 500 products. Here are some of them.

Frito-Lay Brands

Lay's potato chips
Lay's Bistro Gourmet potato chips
Lay's Kettle Cooked potato chips
Wavy Lay's potato chips
Baked Lay's potato crisps
Maui Style potato chips
Ruffles potato chips
Baked Ruffles potato crisps
Ruffles Flavor Rush potato chips
Doritos tortilla chips
Baked Doritos tortilla chips
3D's snacks
Tostitos tortilla chips
Baked Tostitos tortilla chips
Santitas tortilla chips
Fritos corn chips
Cheetos cheese flavored snacks
Rold Gold pretzels & snack mix
Funyuns onion flavored rings
Go Snacks
Sunchips multigrain snacks
Sabritones puffed wheat snacks
Cracker Jack candy coated popcorn
Chester's popcorn
Grandma's cookies
Munchos potato crisps
Smartfood popcorn
Baken-ets fried pork skins
Oberto meat snacks
Rustler's meat snacks
Churrumais fried corn strips
Frito-Lay nuts
Frito-Lay, Ruffles, Fritos and Tostitos dips & salsas
Frito-Lay, Doritos and Cheetos snack crackers
Fritos, Tostitos, Ruffles and Doritos snack kits
Bocabits wheat snacks
Crujitos corn snacks
Fandangos corn snacks
Hamka's snacks
Niknaks cheese sticks
Quavers potato snacks
Sabritas potato chips
Smith's potato chips
Walkers potato crisps
Walkers Square potato snacks
Walkers French Fries potato sticks
Walkers Monster Munch corn snacks
Miss Vickie's potato chips
Munchies snack mix
Gamesa cookies
Doritos Dippas
Sonric's sweet snacks
Wotsits corn snacks

Pepsi-Cola Brands

Pepsi-Cola
Caffeine Free Pepsi
Diet Pepsi
Caffeine Free Diet Pepsi
Pepsi Twist (regular & diet)
Wild Cherry Pepsi
Pepsi Blue
Pepsi ONE
Mountain Dew
Diet Mountain Dew
Mountain Dew Code Red
Diet Mountain Dew Code Red
Mug
Sierra Mist (regular & diet)
Slice
Lipton Brisk (Partnership)
Lipton Iced Tea (Partnership)
Dole juices and juice drinks (License)
FruitWorks juice drinks
Aquafina purified drinking water
Frappuccino ready-to-drink coffee (Partnership)
Starbucks DoubleShot (Partnership)
SoBe juice drinks and teas
AMP energy drink
Mirinda
7UP (International)
Pepsi Limón
Kas
Teem
Pepsi Max
Pepsi Light
Manzanita Sol
Paso de los Toros
Fruko
Evervess
Yedigun
Shani
Fiesta
D&G (License)
Mandarin (License)
Radical Fruit

Gatorade Brands

Gatorade Thirst Quencher
Gatorade Frost Thirst Quencher
Gatorade Fierce Thirst Quencher
Gatorade Ice Thirst Quencher
Gatorade Energy Bars
Propel Fitness Water

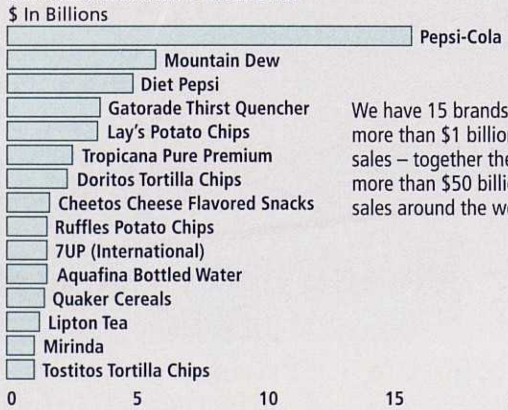
Tropicana Brands

Tropicana Pure Premium juices
Tropicana Season's Best juices and juice drinks
Tropicana Twister juice drinks
Tropicana Smoothies
Tropicana Pure Tropics juices
Dole juices (License)
Loóza juices and nectars
Copella juices
Frui'Vita juices
Tropicana 100 juices
Tropicana Touche de Lait
Alvalle gazpacho fruit juices and vegetable juices

Quaker Brands

Quaker Oatmeal
Quaker Instant Oatmeal
Cap'n Crunch cereal
Life cereal
Quaker Oatmeal Brown Sugar Bliss
Quaker Oatmeal Honey Nut Heaven
Quaker 100% Natural cereal
Quaker Squares cereal
Quisp cereal
King Vitaman cereal
Quaker Oh's! cereal
Mother's cereal
Quaker grits
Quaker Oatmeal-to-Go
Aunt Jemima mixes & syrups
Quaker rice cakes
Quakes rice snacks
Crisp'ums baked crisps
Quaker Chewy granola bars
Quaker Fruit & Oatmeal bars
Quaker Fruit & Oatmeal Bites
Quaker Dipps granola bars
Rice-A-Roni side dishes
Pasta Roni side dishes
Near East couscous/pilafs
FrescAvena beverage powder
Toddy chocolate powder
Toddynho chocolate drink
Coqueiro canned fish
Sugar Puffs cereal
Puffed Wheat
Harvest Crunch cereal
Cruesli cereal
Oat Krunchies cereal
Oat Bran Crispies cereal
Hot Oat Crunch cereal
Quaker Oatso Simple hot cereal
Scott's Porage Oats
Scott's So Easy Oats
Quaker Baking Mixes
Harvest Chewy Bars
Spudz snacks

Largest PepsiCo Brands
Estimated Worldwide Retail Sales
$ In Billions



We have 15 brands that generate more than $1 billion each in retail sales – together they account for more than $50 billion in retail sales around the world.

Principal Divisions and Officers

Listings include age and years of PepsiCo experience.

Executive Offices PepsiCo, Inc.

700 Anderson Hill Road
Purchase, NY 10577
(914) 253-2000

Co-Founder of PepsiCo

Donald M. Kendall
Over 50 years of PepsiCo experience

Corporate Officers

Steven S Reinemund
Chairman of the Board and
Chief Executive Officer
54, 18 years

Indra K. Nooyi
President and Chief Financial Officer
47, 9 years

David R. Andrews
Senior Vice President, Government Affairs,
General Counsel and Secretary
61, 1 year

Peter A. Bridgman
Senior Vice President and Controller
50, 17 years

Albert P. Carey
President, PepsiCo Sales
51, 21 years

Ronald E. Harrison
Senior Vice President, Global Diversity
and Community Affairs
67, 38 years

Tod J. MacKenzie
Senior Vice President,
Corporate Communications
45, 15 years

Matthew M. McKenna
Senior Vice President, Finance
52, 9 years

Margaret D. Moore
Senior Vice President,
Human Resources
55, 29 years

Lionel L. Nowell III
Senior Vice President and Treasurer
48, 3 years

Principal Divisions and Officers

Frito-Lay North America

7701 Legacy Drive
Plano, TX 75024
(972) 334-7000

Abelardo E. Bru
Chairman and Chief Executive Officer
54, 26 years

PepsiCo Beverages & Foods North America

555 West Monroe Street
Chicago, IL 60661
(312) 821-1000

Gary M. Rodkin
Chairman and Chief Executive Officer
50, 6 years

PepsiCo International

700 Anderson Hill Road
Purchase, NY 10577
(914) 253-2000

Michael D. White
Chairman and Chief Executive Officer
51, 13 years

Frito-Lay International

Av. De las Palmas No. 735
Col. Lomas de Chapultepec
Mexico 11000, D.F.
(52-55) 5205-5400

Rogelio M. Rebolledo
President and Chief Executive Officer
58, 26 years

PepsiCo Beverages International

700 Anderson Hill Road
Purchase, NY 10577
(914) 253-2000

Peter M. Thompson
President and Chief Executive Officer
56, 12 years

PepsiCo Board of Directors

Listings include age and year elected PepsiCo director.

Top row, left to right: Robert E. Allen, John F. Akers, Steven S Reinemund, Indra K. Nooyi, Franklin A. Thomas, Peter Foy, Sharon Percy Rockefeller, James J. Schiro.
Bottom row, left to right: Franklin D. Raines, Solomon D. Trujillo, Ray L. Hunt, Cynthia M. Trudell, Arthur C. Martinez, Daniel Vasella, Roger A. Enrico.

John F. Akers
Former Chairman of the Board and
Chief Executive Officer
International Business Machines
68. Elected 1991.

Robert E. Allen
Former Chairman of the Board and
Chief Executive Officer, AT&T Corp.
68. Elected 1990.

Roger A. Enrico
Former Chairman of the Board
and Chief Executive Officer
PepsiCo
58. Elected 1987.

Peter Foy
Chairman
Whitehead Mann Group
62. Elected 1997.

Ray L. Hunt
Chairman and Chief Executive Officer
Hunt Oil Company and
Chairman, Chief Executive Officer and
President, Hunt Consolidated, Inc.
59. Elected 1996.

Arthur C. Martinez
Former Chairman of the Board,
President and
Chief Executive Officer
Sears, Roebuck and Co.
63. Elected 1999.

Indra K. Nooyi
President and Chief Financial Officer
PepsiCo
47. Elected 2001.

Franklin D. Raines
Chairman of the Board and
Chief Executive Officer
Fannie Mae
54. Elected 1999.

Steven S Reinemund
Chairman of the Board and
Chief Executive Officer
PepsiCo
54. Elected 1996.

Sharon Percy Rockefeller
President and Chief Executive Officer
WETA Public Stations, Washington, D.C.
58. Elected 1986.

James J. Schiro
Chief Executive Officer
Zurich Financial Services
57. Elected 2003.

Franklin A. Thomas
Consultant
TFF Study Group
68. Elected 1994.

Cynthia M. Trudell
President
Sea Ray Group
49. Elected 2000.

Solomon D. Trujillo
Chief Executive Officer
Orange SA
51. Elected 2000.

Daniel Vasella
Chairman of the Board and
Chief Executive Officer
Novartis AG
49. Elected 2002.

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OUR BUSINESS

Our discussion and analysis is an integral part of understanding our financial results. Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless noted, and are based on unrounded amounts. Percentage changes are based on unrounded amounts.

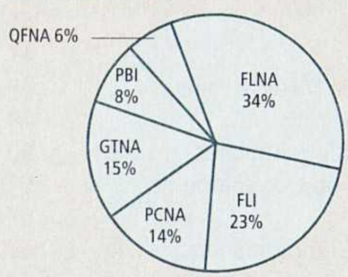
OUR OPERATIONS

We are a leading, global snack and beverage company. We manufacture, market and sell a variety of salty, convenient, sweet and grain-based snacks, carbonated and noncarbonated beverages and foods. We are organized in six divisions:

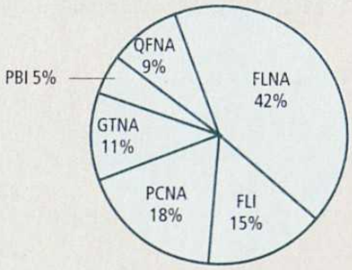
- Frito-Lay North America,
- Frito-Lay International,
- Pepsi-Cola North America,
- Gatorade/Tropicana North America,
- PepsiCo Beverages International, and
- Quaker Foods North America.

Net sales and operating profit contributions from each of our six divisions are as follows:

Division Net Sales Contribution



Division Operating Profit Contribution



Our North American divisions operate in the United States and Canada. Our international divisions operate in over 175 countries, with our largest operations in Mexico and the United Kingdom.

Additional information concerning our divisions and geographic areas is presented in Note 1 to our consolidated financial statements.

Beginning in 2003, we will combine the results of PCNA and GTNA as PepsiCo Beverages North America and of our international food and beverage businesses as PepsiCo International to reflect operating and management changes.

OUR DIVISIONS

FLNA = Frito-Lay North America

FLI = Frito-Lay International

PCNA = Pepsi-Cola North America

GTNA = Gatorade/Tropicana North America

PBI = PepsiCo Beverages International

QFNA = Quaker Foods North America

COMMONLY USED ACRONYMS

CSE = Concentrate shipments and equivalents

BCS = Bottler case sales

Snacks

Frito-Lay North America (FLNA) manufactures, markets, sells and distributes branded snacks. These snacks include Lay's potato chips, Doritos flavored tortilla chips, Cheetos cheese flavored snacks, Fritos corn chips, Tostitos tortilla chips, Ruffles potato chips, Rold Gold pretzels, branded dips, Quaker Chewy granola bars, Sunchips multigrain snacks, Grandma's cookies, Quaker Fruit & Oatmeal bars, Quaker Quakes corn and rice snacks, Quaker rice cakes, Cracker Jack treats and Go Snacks.

In addition to many of the FLNA and Quaker branded snacks sold in North America, Frito-Lay International (FLI) also manufactures and sells a number of leading snack brands including Sabritas, Gamesa and Alegro brands in Mexico, Walkers and Wotsits brands in the United Kingdom, and Smith's brand in Australia. These products are manufactured by consolidated businesses, as well as by noncontrolled affiliates.

FLNA and FLI branded products are sold to independent distributors and retailers. Our snacks businesses measure physical volume growth on a system-wide basis, which includes the volume sold by our noncontrolled affiliates.

Beverages

Pepsi-Cola North America (PCNA) manufactures, markets and sells beverage concentrates, and sells fountain syrups and finished goods, under the brands Pepsi, Mountain Dew, Sierra Mist, Mug, Slice, FruitWorks, SoBe and Dole. PCNA manufactures, markets and sells ready-to-drink tea and coffee products through joint ventures with Lipton and Starbucks. PCNA sells concentrate and finished goods for these brands to bottlers licensed by us. PCNA also licenses the Aquafina water brand to its bottlers. The franchise bottlers sell our brands as finished goods to independent distributors and retailers. PCNA reports two measures of volume performance. Concentrate shipments and equivalents (CSE) reflects PCNA's sales to its bottlers, as well as bottler Aquafina volume, and is reported on a fiscal year basis consistent with net sales. Bottler case sales (BCS) reflects the sales of beverages bearing our trademarks that franchise bottlers have sold to independent distributors and retailers and is reported on a monthly basis. CSE and BCS growth may vary due to differences in the reporting calendar and short-term changes in bottler inventory.

Gatorade/Tropicana North America (GTNA) manufactures, markets and sells Gatorade sports drinks, Tropicana Pure Premium, Dole, Tropicana Season's Best and Tropicana Twister juices and juice drinks and Propel fitness water. These branded products are sold to independent distributors and retailers.

PepsiCo Beverages International (PBI) manufactures, markets and sells beverage concentrates, fountain syrups and finished goods under the brands Pepsi, 7UP, Mirinda, Mountain Dew, Gatorade and Tropicana outside North America. Generally, PBI's brands are sold to franchise bottlers. However, in certain markets, PBI operates bottling plants and distribution facilities. PBI also licenses the Aquafina water brand to certain of its franchise bottlers. PBI reports two measures of volume. Concentrate shipments reflects PBI's sale of concentrate to franchise bottlers only and is reported on a monthly basis consistent with net sales. BCS reflects company-owned and franchise bottler sales of beverages bearing our trademarks and is also reported on a monthly basis. Concentrate shipments and the related BCS may differ due to short-term changes in bottler inventory.

Foods

Quaker Foods North America (QFNA) manufactures, markets and sells cereals, rice, pasta and other branded products. QFNA's products include Quaker oatmeal, Cap'n Crunch and Life ready-to-eat cereals, Rice-A-Roni, Pasta Roni and Near East side dishes, Aunt Jemima mixes and syrups and Quaker grits. These branded products are sold to independent distributors and retailers.

OUR CUSTOMERS

Our customers include franchise bottlers and independent distributors and retailers. We grant our bottlers exclusive contracts to manufacture and/or sell specified beverage products bearing our trademarks within a specific geographic area. These arrangements specify the amount to be paid by our bottlers for concentrate and full goods and for Aquafina royalties, as well as the manufacturing process required for product quality.

Since we do not sell directly to the consumer, we rely on, and provide financial incentives to our customers to assist in the distribution and promotion of our products. For our independent distributors and retailers, these incentives include volume-based rebates, promotions and displays. For our bottlers, these incentives are referred to as bottler funding and are negotiated annually with each bottler to support a variety of trade and consumer programs, such as consumer incentives, advertising support, new product support and vending and cooler equipment placement. Consumer incentives include consumer coupons, pricing discounts and consumer promotions, such as sweepstakes and other promotional offers. Advertising support is directed at advertising programs and supporting bottler media. New product funding includes targeted consumer and retailer incentives for these products and direct marketplace support, such as point-of-purchase materials, media and advertising. Vending and cooler equipment placement programs support the acquisition and placement of vending machines and cooler equipment. The nature and type of programs vary annually. The level of bottler funding is at our discretion because these incentives are not required by the terms of our bottling contracts.

No single customer represents more than 10% of our net sales. However, when considering both our volume and that of our bottlers, Wal-Mart Stores, Inc. is a significant customer. Retail consolidation has increased the importance of major customers and further consolidation is expected. Also see "Cautionary Statements."

Customers are franchise bottlers and independent distributors and retailers.

Consumers are the people who eat and drink our products.

Our Related Party Bottlers

We have ownership interests in certain of our bottlers. Our ownership is generally less than fifty percent and since we do not control these bottlers, we do not consolidate their results. We include our share of their net income based on our percentage of ownership in our income statement as bottling equity income. We have designated three related party bottlers, The Pepsi Bottling Group (PBG), PepsiAmericas (PAS) and Pepsi Bottling Ventures (PBV), as our anchor bottlers. Our anchor bottlers distribute over 70% of our Pepsi-Cola North America case sales volume and approximately 14% of our PepsiCo Beverages International case sales volume. These bottlers participate in the bottler funding programs described above. Approximately 12% of our total sales incentives are paid to these bottlers. See Note 8 to our consolidated financial statements for additional information on these related parties and related party commitments and guarantees.

Our anchor bottlers distribute over 70% of our Pepsi-Cola North America case sales volume and approximately 14% of our PepsiCo Beverages International case sales volume.

OUR DISTRIBUTION NETWORK

Our products are brought to market through direct-store-delivery, broker-warehouse and foodservice and vending distribution networks. The distribution system used depends on customer needs, product characteristics, and local trade practices.

Direct-Store-Delivery

We and our bottlers operate direct-store-delivery systems that deliver snacks and beverages directly to retail stores where the products are merchandised by our employees or our bottlers. Direct-store-delivery enables us to merchandise with maximum visibility and appeal. Direct-store-delivery is especially well-suited to products that have high retail turnover and respond to in-store promotion and merchandising.

Broker-Warehouse Systems

Some of our products are delivered from our warehouses to customer warehouses and retail stores. These less costly systems generally work best for products that are less fragile and perishable, have lower turnover, and are less likely to be impulse purchases.

Foodservice and Vending

Our foodservice and vending sales force distributes snacks, foods and beverages to third-party foodservice and vending distributors and operators, and through our bottlers. This distribution system supplies our products to schools, businesses, stadiums, restaurants and similar locations.

We distribute by:

- **direct-store-delivery,**
- **broker-warehouse, and**
- **foodservice and vending.**

OUR COMPETITION

Our businesses operate in highly competitive markets. We compete against global companies and regional and private label manufacturers on the basis of price, quality, product variety and effective distribution. Success in this competitive environment is primarily achieved through effective promotion of existing products and the introduction of new products. We believe that the strength of our brands, innovation and marketing, coupled with our quality products and flexible distribution network, allow us to effectively compete.

OTHER RELATIONSHIPS

Certain members of our Board of Directors also serve on the boards of certain vendors and customers. Those Board members do not participate in our vendor selection and negotiations nor in our customer negotiations. Our transactions with these vendors and customers are in the normal course of business and are consistent with terms negotiated with other vendors and customers. In addition, certain of our employees serve on the boards of our anchor bottlers and other affiliated companies and do not receive incremental compensation for their board services.

OUR MARKET RISKS

We are exposed to the risks arising from adverse changes in:

- **commodity prices, affecting the cost of our raw materials and fuel;**
- **foreign exchange rates;**
- **interest rates on our short-term investment and debt portfolios; and**
- **stock prices.**

In the normal course of business, we manage these risks through a variety of strategies, including the use of derivatives designated as cash flow and fair value hedges. See Note 10 to our consolidated financial statements for further discussion of these hedges and our hedging policies. The fair value of our hedges fluctuates based on market rates and prices. The sensitivity of our hedges to these market fluctuations is discussed below. See "Our Critical Accounting Policies" for a discussion of the exposure of our pension plan assets and liabilities to risks related to interest rates and stock prices.

Inflationary, deflationary and recessionary conditions impacting these market risks also impact the demand for and pricing of our products. See "Cautionary Statements" for further discussion.

Commodity Prices

Our commodity derivatives totaled $70 million at December 28, 2002 and $252 million at December 29, 2001. These derivatives resulted in a net unrealized gain of $6 million at December 28, 2002 and a net unrealized loss of $16 million at December 29, 2001. We estimate that a 10% decline in commodity prices would have resulted in an unrealized loss of $2 million in 2002 and increased the unrealized loss by $18 million in 2001.

Foreign Exchange

Our operations outside of the United States generate 34% of our net sales of which Mexico, the United Kingdom and Canada contribute 19%. As a result, we are exposed to foreign currency risks from unforeseen economic changes and political unrest. During 2002, the impact of declines in the Mexican peso were substantially offset by increases in the British pound and the euro. However, if future declines in the Mexican peso are not offset by increases in the British pound and the euro, our future results would be adversely impacted.

We may enter into derivatives to manage our exposure to foreign currency transaction risk. Our foreign currency derivatives had a total face value of $329 million at December 28, 2002 and $355 million at December 29, 2001. These contracts had a net unrealized loss of less than $1 million at December 28, 2002 and a net unrealized gain of $4 million at December 29, 2001. We estimate that an unfavorable 10% change in the exchange rates would have increased the unrealized loss by $34 million in 2002 and would have resulted in an unrealized loss of $31 million in 2001.

Interest Rates

Late in 2002, we terminated the majority of our interest rate swaps used to manage our interest rate risk. As a result, 12% of our debt is exposed to variable interest rates compared to approximately 45% in 2001. Assuming year-end variable rate debt and investment levels, a 1 percentage point increase in interest rates would have reduced net interest expense by $11 million in 2002 and increased net interest expense by $3 million in 2001. The impact of the 1 percentage point increase in rates at year-end 2002 reflects higher investment balances and lower variable debt balances. This sensitivity analysis includes the impact of existing interest rate swaps during these years.

Stock Prices

We manage the market risk related to our deferred compensation liability, which is indexed to certain market indices and our stock price, with mutual fund investments and prepaid forward contracts for the purchase of our stock. The combined losses on these investments are offset by changes in our deferred compensation liability which is included in Corporate selling, general and administrative expenses.

CAUTIONARY STATEMENTS

We discuss expectations regarding our future performance, such as our business outlook, in our annual and quarterly reports, press releases, and other written and oral statements. These "forward-looking statements" are based on currently available competitive, financial and economic data and our operating plans. They are inherently uncertain, and investors must recognize that events could turn out to be significantly different from our expectations.

You should consider the following key factors when evaluating our trends and future results:

- continued demand for our products, which is dependent on successful product introductions and other innovations, effectiveness of our sales incentives, advertising campaigns and marketing programs, seasonal weather conditions, relationships with key customers (including our bottlers), and our response to consumer health concerns and changes in product category consumption;
- competitive product and pricing pressures;
- continued success from our productivity initiatives, which is dependent upon our ability to implement and leverage these programs;
- continued success of acquisition integrations, including our ability to achieve cost savings and revenue enhancement opportunities from the Quaker merger;
- unforeseen economic changes and political unrest, which may result in business interruption, foreign currency devaluation, inflation, deflation and decreased demand, particularly in areas outside North America, such as in Latin America and the Middle East;
- maintenance of our profit margin in the face of a consolidating retail environment;
- changes in laws and regulations, including changes in food and drug laws, accounting standards, taxation requirements (including tax rate changes, new tax laws and revised tax law interpretations) and environmental laws; and
- fluctuations in manufacturing costs and the availability of raw materials.

The discussion of these risks and uncertainties is by no means all inclusive but is designed to highlight what we believe are important factors to consider.

OUR CRITICAL ACCOUNTING POLICIES

An understanding of our accounting policies is necessary to completely analyze our financial results. Our critical accounting policies require management to make difficult and subjective judgments regarding uncertainties. As a result, estimates are included in and may significantly impact our financial results. The precision of these estimates and the likelihood of future changes depend on a number of underlying variables and a range of possible outcomes. We applied our estimation methods consistently in all periods presented.

Our critical accounting policies arise in conjunction with the following:

- **revenue recognition,**
- **brands and goodwill,**
- **income taxes, and**
- **pension and retiree medical plans.**

REVENUE RECOGNITION

Our products are sold for cash or on credit terms. Our credit terms, which are established in accordance with local and industry practices, typically require payment within 30 days of delivery and may allow discounts for early payment. We recognize revenue upon delivery to our customers in accordance with written sales terms that do not allow for a right of return. However, our policy for direct-store-delivery and chilled products is to remove and replace out-of-date products from store shelves to ensure that consumers receive the product quality and freshness that they expect. Based on our historical experience with this practice, we have reserved for anticipated out-of-date product. Our bottlers have a similar replacement policy and are responsible for our products that they distribute.

We recognize revenue upon delivery to our customers.

We offer sales incentives through various programs to customers, consumers and, for PCNA, directly to certain retailers. Sales incentives are accounted for as a reduction of sales and totaled \$5.5 billion in 2002, \$4.7 billion in 2001 and \$4.3 billion in 2000. A number of these programs, such as bottler funding and customer volume rebates, are based on annual targets, and accruals are established during the year for the expected payout. The accruals are based on our previous experience with similar programs. The terms of most of our incentive arrangements do not exceed a year. However, we have arrangements, such as fountain pouring rights, which extend up to 12 years. Costs incurred to obtain these rights are recognized over the life of the contract as a reduction of sales, and the outstanding balance is included in other assets in our Consolidated Balance Sheet.

We estimate and reserve for our bad debt exposure from credit sales based on our experience. Our method of determining the reserves has not changed during the years presented in the consolidated financial statements. Bad debt expense is classified within selling, general and administrative expenses in our Consolidated Income Statement.

BRANDS AND GOODWILL

We sell products under a number of brand names around the world, many of which were developed by us. The brand development costs are expensed as incurred. We also purchase brands and goodwill in acquisitions. Upon acquisition, the purchase price is first allocated to identifiable assets and liabilities, including brands, based on estimated fair value, with any remaining purchase price recorded as goodwill. Goodwill and perpetual brands are not amortized.

We believe that a brand has an indefinite life if it has significant market share in a stable macroeconomic environment, and a history of strong revenue and cash flow performance that we expect to continue for the foreseeable future. If these perpetual brand criteria are not met, brands are amortized over their expected useful lives, which generally range from five to twenty years. Determining the expected life of a brand requires considerable management judgment and is based on an evaluation of a number of factors, including the competitive environment, market share, brand history and the macroeconomic environment of the country in which the brand is sold.

Perpetual brands and goodwill are assessed for impairment at least annually to ensure that future cash flows continue to exceed the related book value. A perpetual brand is impaired if its book value exceeds its fair value. Goodwill is evaluated for impairment if the book value of its reporting unit exceeds its fair value. A reporting unit can be a division or business. If the fair value of an evaluated asset is less than its book value, the asset is written down based on its discounted future cash flows to fair value.

Amortizable brands are only evaluated for impairment upon a significant change in the operating or macroeco-

The determination of the expected life of our brands is primarily based on:

- **competitive environment,**
- **market share,**
- **brand history, and**
- **macroeconomic environment.**

nomic environment. If an evaluation of the undiscounted cash flows indicates impairment, the asset is written down to its estimated fair value, which is generally based on discounted future cash flows.

Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted growth rates and our cost of capital, are consistent with our internal projections and operating plans.

We did not recognize any impairment charges for perpetual brands or goodwill during 2002. As of December 28, 2002, we had over $4 billion of perpetual brands and goodwill, of which 75% related to Tropicana and Walkers. In our most recent impairment evaluations for Tropicana and Walkers, no impairment charges would have resulted even if operating profit growth were assumed to be 5% lower.

Over 75% of our perpetual brands and goodwill relate to Tropicana and Walkers.

INCOME TAXES

Our reported effective tax rate was 31.9% for 2002. Excluding the impact of nondeductible merger-related costs, our effective tax rate was 31.2%. For 2003, our effective tax rate, excluding the impact of nondeductible merger-related costs, is expected to be 30.5%. The decrease from 2002 primarily reflects the impact of our new concentrate plant.

Our effective tax rate is based on expected income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our effective tax rate and in evaluating our tax positions. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are likely to be challenged and that we may not succeed. We adjust these reserves in light of changing facts and circumstances, such as the progress of a tax audit. Our effective tax rate includes the impact of reserve provisions and changes to reserves that we consider appropriate, as well as related interest. This rate is then applied to our quarterly operating results. In the event that there is a significant unusual or one-time item recognized in our operating results, the tax attributable to that item would be separately calculated and recorded at the same time as the unusual or one-time item. We consider the Quaker merger-related costs to be a significant one-time item.

Our effective tax rate is based on:

- **expected income,**
- **statutory rates, and**
- **tax planning opportunities.**

Our effective tax rate was 31.9% in 2002. Excluding nondeductible merger costs, our effective tax rate was 31.2%.

Tax regulations require items to be included in the tax return at different times than the items are reflected in the financial statements. As a result, our effective tax rate reflected in our financial statements is different than that reported in our tax return. Some of these differences are permanent, such as expenses which are not deductible on our tax return, and some are timing differences, such as depreciation expense. Timing differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax return in future years for which we have already recorded the tax benefit in our income statement. We establish valuation allowances for our deferred tax assets when the amount of expected future taxable income is not likely to support the use of the deduction or credit. Deferred tax liabilities generally represent tax expense recognized in our financial statements for which payment has been deferred or expense for which we have already taken a deduction on our tax return, but have not yet recognized as expense in our financial statements. We have not recognized any United States tax expense on undistributed international earnings since we intend to reinvest the earnings outside the United States for the foreseeable future. These undistributed earnings are approximately $7.5 billion at December 28, 2002.

A number of years may elapse before a particular matter, for which we have established a reserve, is audited and finally resolved. The number of years with open tax audits varies depending on the tax jurisdiction. In the United States, the audits for 1991 through 1993 remain open for certain items and the Internal Revenue Service is currently examining our tax returns for 1994 through 1997. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe that our reserves reflect the probable outcome of known tax contingencies. Unfavorable settlement of any particular issue would require use of our cash. Favorable resolution would be recognized as a reduction to our effective tax rate in the year of resolution. Our tax reserves are presented in the balance sheet within other liabilities, except for amounts relating to items we expect to settle in the coming year which are classified as current.

PENSION AND RETIREE MEDICAL PLANS

Our pension plans cover full-time U.S. employees and certain international employees. Benefits are determined based on either years of service or a combination of years of service and earnings. U.S. employees are also eligible for medical and life insurance benefits (retiree medical) if they meet age and service requirements and qualify for retirement benefits. Generally, our retiree medical costs are capped at a specified dollar amount, with retirees contributing the remainder.

The expected benefit to be paid is expensed over the employees' expected service. Management must make many assumptions to determine the expected benefit and expected service, including:

- the interest rate used to determine the present value of liabilities (discount rate),
- the expected return on plan assets for plans funded by us,
- the rate of salary increases for plans where benefits are based on earnings,
- health care cost trend rates for retiree medical plans, and
- certain employee-related factors, such as turnover, retirement age and mortality.

We make contributions to trusts maintained to provide plan benefits for certain pension plans. These contributions are made in accordance with applicable tax regulations that provide for current tax deductions for our contributions and taxation to the employee only upon receipt of plan benefits. We do not generally fund pension plans and retiree medical plans when our contributions would not be tax deductible or when the employee would be taxed prior to receipt of benefit. Pension plan investment guidelines are established based upon an evaluation of market conditions, risk tolerance and plan investment horizon.

Weighted-average assumptions for pension and retiree medical expense:

	2003	2002	2001	2000
Pension				
Expense discount rate	6.7%	7.4%	7.7%	7.7%
Expected rate of return on plan assets	8.2%	9.1%	9.8%	9.9%
Rate of salary increases	4.4%	4.4%	4.6%	4.5%
Retiree medical				
Expense discount rate	6.7%	7.5%	7.8%	7.8%

The assets, liabilities and assumptions used to measure pension and retiree medical expense are determined as of September 30 of the preceding year (measurement date). Since the liabilities are measured on a discounted basis, the discount rate is a significant assumption. It is based on interest rates for high-quality, long-term corporate debt at each measurement date. The expected return on pension plan assets is based on our historical experience and our expectations for long-term rates of return. To measure pension expense, we use a calculated value for plan assets which recognizes changes in fair value over five years rather than the current fair value at each measurement date. The other assumptions also reflect our historical experience and management's best judgment regarding future expectations.

Gains and losses resulting from actual experience differing from our assumptions are determined at each measurement date. If the net total gain or loss exceeds 10% of the greater of plan assets or liabilities, a portion of the net gain or loss is included in expense for the next year. The cost or benefit of plan changes, such as increasing or decreasing benefits for prior employee service, is included in expense over the expected service of the employees.

We review our assumptions at least at the annual measurement date. During 2002, we completed a review of our pension investment and funding strategy for our U.S. pension plans. As a result, we revised our U.S. investment allocation to a maximum of 65% equities with the balance in fixed income securities. As a result of the mid-year 2002 investment funding and strategy changes, we remeasured pension expense for our U.S. plans to incorporate a reduction in the rate of return on plan assets to 8.2%, as well as changes to employee-related assumptions based on current data. This mid-year valuation resulted in a weighted average expected return on plan assets for 2002 of 9.1% and increased the balance of year pension expense by $29 million. This increase is reported in Corporate selling, general and administrative expenses.

Health care cost trend rates have an impact on the retiree medical plan expense. A 1 percentage point increase in the assumed health care trend rate would increase the service and interest costs by $4 million for 2003 and a 1 percentage point decrease would reduce these costs by $4 million.

Pension expense for 2003 is estimated to be approximately $160 million and retiree medical expense is estimated to be approximately $120 million compared to 2002 pension expense of $111 million and retiree medical expense of $88 million. These estimates incorporate the 2003 assumptions as well as the impact of the increased pension plan assets resulting from our contributions to funded plans.

- **Pension plans cover full-time U.S. and certain international employees.**
- **The expected benefit to be paid is expensed over the employees' service period.**
- **The assumed rate of return on assets was reduced to 8.2%.**
- **Mid-year 2002 changes resulted in increased pension expense of $29 million.**

OUR FINANCIAL RESULTS

CONSOLIDATED STATEMENT OF INCOME

PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 28, 2002, December 29, 2001 and December 30, 2000

(in millions except per share amounts)	**2002**	2001	2000
Net Sales	**$25,112**	$23,512	$22,337
Cost of sales	**11,497**	10,750	10,226
Selling, general and administrative expenses	**8,523**	8,189	7,962
Amortization of intangible assets	**138**	165	147
Merger-related costs	**224**	356	–
Other impairment and restructuring charges	**–**	31	184
Operating Profit	**4,730**	4,021	3,818
Bottling equity income	**280**	160	130
Interest expense	**(178)**	(219)	(272)
Interest income	**36**	67	85
Income before Income Taxes	**4,868**	4,029	3,761
Provision for Income Taxes	**1,555**	1,367	1,218
Net Income	**$ 3,313**	$ 2,662	$ 2,543
Net Income per Common Share			
Basic	**$1.89**	$1.51	$1.45
Diluted	**$1.85**	$1.47	$1.42

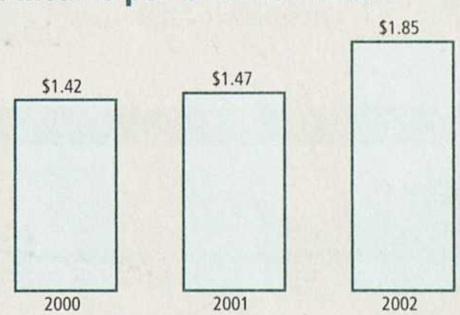
See accompanying notes to consolidated financial statements.

Net Sales

Operating Profit

Net Income

Net Income per Common Share



ITEMS AFFECTING COMPARABILITY

The year-over-year comparisons of our financial results are affected by the following one-time items and accounting changes:

	2002	2001	2000
Net Sales			
SVE consolidation	–	$706	$648
53rd week in 2000	–	–	$(294)
Operating Profit			
Merger-related costs	**$224**	$356	–
SFAS 142 adoption	–	$23	$88
SVE consolidation	–	$13	$16
Other impairment and restructuring charges	–	$31	$184
53rd week in 2000	–	–	$(62)
Other	–	$(2)	$17
Bottling Equity Income			
SFAS 142 adoption	–	$65	$70
53rd week in 2000	–	–	$(5)
Net Income			
Merger-related costs	**$190**	$322	–
SFAS 142 adoption	–	$102	$151
Other impairment and restructuring charges	–	$19	$111
53rd week in 2000	–	–	$(44)
Net Income per Common Share – Diluted			
Merger-related costs	**$0.11**	$0.18	–
SFAS 142 adoption	–	$0.06	$0.08
Other impairment and restructuring charges	–	$0.01	$0.06
53rd week in 2000	–	–	$(0.02)

Merger-Related Costs

We incurred costs associated with our merger with Quaker. We expect to incur additional costs of approximately $50 million in 2003 to complete the integration of the two companies. For additional information, see Note 3 to our consolidated financial statements.

SFAS 142 Adoption

In 2002, we adopted SFAS 142, *Goodwill and Other Intangible Assets*, which eliminated amortization of goodwill and perpetual brands (our nonamortizable intangibles), and resulted in the acceleration of the amortization of certain of our other intangibles. The prior year adjustments in the above table reflect the impact that would have resulted if adoption had occurred at the beginning of 2000. For additional information, see "Our Critical Accounting Policies" and Note 4 to our consolidated financial statements.

SVE Consolidation

As a result of changes in the operations of Snack Ventures Europe (SVE), we determined that consolidation was required, and we consolidated SVE in 2002. The prior year adjustments in the table reflect the impact that would have resulted if consolidation had occurred at the beginning of 2000. For further information on our consolidation of SVE, see Note 1 to our consolidated financial statements.

Other Impairment and Restructuring Charges

We incurred costs for Quaker's supply chain reconfiguration and manufacturing and distribution optimization project.

53rd Week in 2000

Our fiscal year ends on the last Saturday in December, and as a result, a 53rd week is added every five or six years. Comparisons of 2002 and 2001 to 2000 are affected by an additional week of results in 2000.

Other

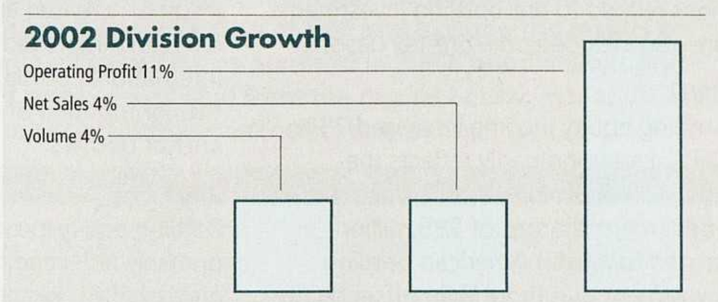
This adjustment primarily reflects the reclassification of our prepaid forward contracts. Beginning in 2001, in connection with the adoption of the accounting standard on derivative instruments, gains or losses on prepaid forward contracts, which are used to hedge a portion of our deferred compensation liability, were reclassified to Corporate selling, general and administrative expenses. These amounts were previously reported in interest income. For more information on these prepaid forward contracts, see "Our Market Risks."

Pending Accounting Changes

Current pending accounting standards are not expected to have a material impact on our financial statements. For a description of these new accounting standards see Note 2 to our consolidated financial statements.

RESULTS OF OPERATIONS – CONSOLIDATED REVIEW

In the discussions of net sales and operating profit below, *effective net pricing* reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries.



SERVINGS

Servings increased 4% in 2002 and 2001.

Since our divisions each use different measures of physical unit volume (e.g., kilos, pounds, case sales, gallons, etc.), a common servings metric is necessary to reflect our consolidated physical unit volume. Our divisions' physical volume measures are converted into servings based on U.S. Food and Drug Administration guidelines for single-serving sizes of our products.

Total servings increased 4% in 2002 compared to 2001 due to volume gains across all divisions led by beverages. Total servings increased 4% in 2001 compared to 2000 primarily due to contributions from our international divisions and Pepsi-Cola North America.

NET SALES AND TOTAL OPERATING PROFIT

				Change	
	2002	2001	2000	**2002**	2001
Net sales	**$25,112**	$23,512	$22,337	**7%**	5%
Operating profit	**$4,730**	$4,021	$3,818	**18%**	5%
Operating profit margin	**18.8%**	17.1%	17.1%	**1.7**	–

2002

Net sales increased 7% and operating profit increased 18% driven by volume gains across all divisions, the consolidation of SVE, higher concentrate pricing and favorable mix. These gains were partially offset by increased promotional spending at Gatorade/Tropicana North America and Frito-Lay North America and net unfavorable foreign currency movement. The consolidation of SVE increased net sales growth by 3 percentage points and operating profit by 1 percentage point. In addition, operating profit growth improved 5 percentage points from the impact of lower merger-related costs, the absence of other impairment and restructuring costs and the adoption of SFAS 142.

The impact of net unfavorable foreign currency movements reduced net sales growth by 1 percentage point. Operating profit growth was not materially affected by foreign currency movements.

Our operating profit margin increased 1.7 percentage points primarily due to lower costs reflecting merger synergies of approximately $250 million, lower merger costs and productivity. We expect our operating margins to continue to improve as a result of Quaker merger-related synergies that are expected to reach $400 million a year by 2004 and by our ongoing productivity initiatives.

2001

Net sales and operating profit increased 5% primarily reflecting increased volume and higher effective net pricing of snacks and beverages, as well as the acquisition of South Beach Beverage Company, LLC (SoBe), which contributed nearly 1 percentage point to net sales growth. These gains were partially offset by the inclusion of the 53rd week in 2000, which reduced net sales growth by more than 1 percentage point and operating profit growth by 1.5 percentage points, and a net unfavorable foreign currency impact. In addition, operating profit was reduced by merger-related costs and higher general and administrative expenses, partially offset by lower costs for the Quaker supply chain project. Merger-related costs and lower supply chain costs reduced operating profit growth by approximately 5 percentage points.

The unfavorable foreign currency impact, primarily in Brazil and Europe, reduced net sales growth by more than 1 percentage point. Operating profit growth was reduced nearly 1 percentage point as a result of unfavorable foreign currency movements.

BOTTLING EQUITY INCOME

Bottling equity income includes our share of the net income or loss of our noncontrolled bottling affiliates as described in "Our Customers." Our interest in these bottling investments may change from

				% Change	
	2002	2001	2000	**2002**	2001
Bottling equity income	**$280**	$160	$130	**75**	23

time to time. Any gains or losses from these changes, as well as other transactions related to our bottling investments, are also included on a pre-tax basis.

2002

Bottling equity income increased 75%. This increase primarily reflects the adoption of SFAS 142. The impact of impairment charges of $35 million related to a Latin American bottling investment was more than offset by the settlement of issues upon the sale of our investment in Pepsi-Gemex, our Mexican bottling affiliate, and the absence of one-time items discussed in 2001 below. Excluding these items, bottling equity income increased approximately 13% reflecting improved performance of our international bottling investments, and the contribution of our North American anchor bottlers.

2001

Bottling equity income increased 23%, primarily reflecting the strong performance of PBG. Results for 2001 also include a gain of $59 million from the sale of approximately 2 million shares of PBG stock, and a net credit of $23 million related to the resolution of issues for which a prior year accrual was established in connection with the creation of our anchor bottler system. Bottling equity income in 2001 also benefited from $5 million of losses from the 53rd week in 2000. These increases were offset by impairment charges of $62 million related to certain international bottling investments, primarily our equity investment in Turkey and a charge of $27 million for our share of a charge recorded by PepsiAmericas for environmental liabilities related to discontinued operations.

INTEREST EXPENSE, NET

				% Change	
	2002	2001	2000	**2002**	2001
Interest expense, net	**$(142)**	$(152)	$(187)	**6**	19

2002

Net interest expense declined 6% primarily due to lower average debt levels, partially offset by increased losses of $10 million on investments used to hedge a portion of our deferred compensation liability. Decreases in borrowing rates were offset by decreases in investment rates.

2001

Net interest expense declined 19%. Interest expense declined primarily as a result of significantly lower average debt levels. Interest income declined as 2000 includes $19 million in gains from prepaid forward contracts. Excluding the prepaid forward contracts, interest income increased slightly as the impact of higher average investment balances was largely offset by lower average interest rates and losses on the investments hedging a portion of our deferred compensation liability.

EFFECTIVE TAX RATE

	2002	2001	2000
Effective tax rate	**31.9%**	33.9%	32.4%

2002

The effective tax rate decreased 2 percentage points compared to prior year. The adoption of SFAS 142 reduced the rate by 0.8 percentage points. The impact of nondeductible merger-related costs on the rate decreased from 1.9 percentage points in 2001 to 0.7 percentage points in 2002. Excluding the impact of nondeductible merger-related costs in 2002, our effective tax rate would have been 31.2%.

2001

The effective tax rate increased 1.5 percentage points primarily due to limited tax benefits associated with merger-related costs, partially offset by lower taxes on foreign results.

NET INCOME AND NET INCOME PER COMMON SHARE

				% Change	
	2002	2001	2000	**2002**	2001
Net income	**$3,313**	$2,662	$2,543	**24**	5
Net income per common share – diluted	**$1.85**	$1.47	$1.42	**26**	4

2002

Net income increased 24% and the related net income per common share increased 26%. These increases primarily reflect the solid operating profit growth, lower merger-related costs and the adoption of SFAS 142. Net income per common share also reflects the benefit of a reduction in average shares outstanding primarily as a result of increased share buyback activity. Merger-related costs reduced net income per common share by $0.11 in 2002.

2001

Net income increased 5% and the related net income per common share increased 4%. These increases primarily reflect increased operating profit, reduced other impairment and restructuring costs, lower net interest expense, and a lower effective tax rate, partially offset by merger-related costs.

RESULTS OF OPERATIONS – DIVISION REVIEW

The results and discussions below are based on how our Chief Executive Officer monitors the performance of our divisions. Prior year amounts reflect the adoption of SFAS 142 and consolidation of SVE and exclude the results of divested businesses. In addition, when our fiscal year contains a 53rd week, as occurred in 2000, our divisions are managed on a fifty-two week basis and, accordingly, the 53rd week is excluded from the results below. For additional information on these items and our divisions, see Note 1 to our consolidated financial statements.

FRITO-LAY NORTH AMERICA

				% Change	
	2002	2001	2000	**2002**	2001
Net sales	**$8,565**	$8,216	$7,769	**4**	6
Operating profit	**$2,216**	$2,056	$1,875	**8**	10

2002

Pound volume grew 4% primarily due to new products, strong growth in branded snack mix, single-digit growth in Cheetos cheese flavored snacks, Doritos tortilla chips, branded dips and Quaker Chewy Granola bars, and double-digit growth in Rold Gold pretzels. Go Snacks significantly contributed to the new product growth and Munchies drove the branded snack mix growth. These gains were partially offset by a single-digit decline in Ruffles potato chips.

Volume increased 4% in 2002 and 3% in 2001.

Growth in net sales of 4% and operating profit of 8% reflects the increased volume. Approximately half of the net sales growth came from new products. Increased promotional spending more than offset favorable mix and other pricing. Lower costs, particularly performance-based compensation and commodity prices for vegetable oils and natural gas, contributed 4 percentage points of the operating profit growth.

2001

Pound volume advanced 3%. This growth was led by single-digit growth in Lay's potato chips, Cheetos cheese flavored snacks, Doritos tortilla chips, Fritos corn chips and the introduction of our new Lay's Bistro Gourmet potato chips. These gains were partially offset by a double-digit decline in Ruffles potato chips.

Growth in net sales of 6% and operating profit of 10% primarily reflects higher effective net pricing and the increased volume. Lay's Bistro Gourmet potato chips contributed nearly 1 percentage point to the sales growth. Advertising and marketing expenses grew at a faster rate than sales, also negatively impacting operating profit growth.

FRITO-LAY INTERNATIONAL

				% Change	
	2002	2001	2000	**2002**	2001
Net sales	**$5,713**	$5,492	$5,172	**4**	6
Operating profit	**$781**	$651	$577	**20**	13

2002

Volume grew 6% primarily reflecting 3% growth in salty snacks, 8% growth in sweet snacks and 6% growth in foods. Single-digit growth at Walkers and Sabritas contributed over 70% of the salty volume growth. Strong single-digit growth at Gamesa contributed nearly 80% of the sweet growth and the introduction of Chipita croissants in Russia contributed the remainder. Brazil drove the foods volume.

Unfavorable foreign currencies in Mexico, Argentina and Brazil reduced net sales growth by 4 percentage points. This impact was partially offset by the favorable 1 percentage point impact of the British pound and the euro. Foreign currency was not a factor in operating profit growth as the unfavorable Mexican peso offset the favorable impact of the British pound and, as a result of operating losses, the Argentinean peso.

Growth in net sales of 4% and operating profit of 20% primarily reflects solid results at Walkers, Gamesa and Sabritas. The impact of higher net effective pricing in Brazil and Argentina contributed 1 percentage point to net sales growth. These gains were partially offset by the impact of unfavorable foreign currencies. Walkers and Gamesa together contributed over 60% of the net sales growth and nearly half of the operating profit growth. Favorable advertising and marketing costs at Sabritas also contributed to operating profit growth.

2001

Volume increased 6%, reflecting growth in the salty and sweet categories. The salty volume grew 9% led by double-digit growth at SVE, in Brazil and in Poland, single-digit growth at Walkers and 2 percentage points of growth from acquisitions. Sweet volume grew 5% driven by growth at Gamesa.

Growth in net sales of 6% and operating profit of 13% primarily reflects solid results from Walkers, Gamesa and Poland, effective net pricing at Sabritas and Gamesa, and the impact of acquisitions. Macroeconomic conditions in Argentina negatively impacted operating profit growth. Unfavorable foreign currency movements in Brazil and the United Kingdom decreased net sales by 4 percentage points and operating profit growth by 2 percentage points.

Volume increased 6% in 2002 and 2001.

PEPSI-COLA NORTH AMERICA

	2002	2001	2000	% Change 2002	% Change 2001
Net sales	**$3,365**	$3,189	$2,657	**6**	20
Operating profit	**$987**	$881	$820	**12**	7

2002

Concentrate shipments and equivalents increased 2% driven by strong double-digit growth in Aquafina, the introductions of Lipton Brisk Lemonade and Pepsi Blue, and continued growth of Pepsi Twist, Code Red and Sierra Mist. Trademark Mountain Dew was flat compared to prior year reflecting the double-digit growth of Code Red offset by declines in base Mountain Dew. Trademark Pepsi was down slightly compared to prior year as gains from Pepsi Twist and Pepsi Blue were more than offset by declines in base Pepsi. BCS increased 2% over the prior year.

Net sales increased 6% and operating profit increased 12%. These increases reflect higher concentrate pricing contributing 3 percentage points to net sales growth and substantially all of the operating profit growth. These increases also reflect volume from the new product introductions, increased Aquafina royalties and higher national fountain pricing, partially offset by lower concentrate volume, costs associated with litigation, increased inventory costs and increased advertising and marketing expenses related to our new products. New products contributed approximately 2 percentage points to the net sales growth. Advertising and marketing costs, costs of sales and general and administrative expenses grew at a slower rate than sales.

As in 2002, we expect concentrate pricing to favorably impact our results due to the 2% price increase effective in the first quarter of 2003. In addition, our carbonated soft drink volume will be favorably impacted by the expanded distribution of Sierra Mist by many of our U.S. bottlers as these bottlers distribute Sierra Mist as their exclusive lemon-lime brand.

Concentrate shipments and equivalents increased 2% in 2002 and 4% in 2001.

Bottler case sales increased 2% in 2002 and 4% in 2001.

2001

Concentrate shipments and equivalents increased 4%. This increase was primarily driven by high single-digit growth in Mountain Dew reflecting the introduction of Code Red, strong growth in Sierra Mist and Aquafina, the acquisition of SoBe and the launch of Dole. These gains were partially offset by a low single-digit decline in trademark Pepsi, which was mitigated by the successful launch of Pepsi Twist, and a double-digit decline in Slice as a result of the introduction of Sierra Mist. Bottler case sales volume increased 4%. The carbonated soft drink portfolio and the acquisition of SoBe each contributed 1 percentage point to both concentrate shipments and equivalents and bottler case sales growth.

Growth in net sales of 20% and operating profit of 7% primarily reflects the increased volume and higher effective net pricing. The acquisition of SoBe and our new products Dole, Mountain Dew Code Red, Sierra Mist and Pepsi Twist, accounted for the majority of the revenue growth. SoBe and Dole are sold as finished product to our bottlers. Accordingly, net sales growth was accelerated due to their significantly higher price per unit for these products. The SoBe acquisition contributed 7 percentage points to net sales growth. These gains were partially offset by increased customer support.

Operating profit growth was slowed by the increased advertising and marketing expenses and general and administrative expenses. General and administrative expenses grew at a significantly faster rate than sales. The SoBe acquisition reduced operating profit growth by 4 percentage points primarily due to brand amortization.

GATORADE/TROPICANA NORTH AMERICA

	2002	2001	2000	% Change 2002	% Change 2001
Net sales	**$3,835**	$3,699	$3,514	**4**	5
Operating profit	**$590**	$585	$554	**1**	6

2002

Overall volume grew 8% reflecting strong 17% growth in Gatorade products and a 1% decline in Tropicana products. The Gatorade volume growth resulted from new product introductions and the national launch of Propel. Excluding the loss of the single serve Pure Premium business at Burger King, Tropicana volume growth was nearly 1% as gains in Tropicana chilled products, driven by Pure Premium nutritionals and Dole blends, were offset by declines in Tropicana ambient products led by Twister.

Net sales increased 4% and operating profit increased 1% primarily due to the volume gains and favorable product mix. The volume gains contributed over

Volume increased 8% in 2002 and 4% in 2001.

7 percentage points to the net sales growth which were greatly offset by increased promotional spending. The increased promotional spending reflects the competitive marketplace and chilled juice and juice drink category softness. Operating profit benefited from lower costs driven by merger-related synergies.

2001

Overall volume grew 4%. This growth was led by three new Gatorade flavors and double-digit growth in Tropicana Pure Premium nutritionals, offset by low double-digit declines in Tropicana Season's Best.

Net sales increased 5% and operating profit increased 6% due to the volume gains and higher effective net pricing for Gatorade. Operating profit also benefited from lower general and administrative expenses, partially offset by higher advertising and marketing expenses and higher Tropicana manufacturing costs as a result of lower fruit yields, higher energy costs and lower production leverage.

PEPSICO BEVERAGES INTERNATIONAL

	2002	2001	2000	% Change 2002	% Change 2001
Net sales	**$2,036**	$2,012	$1,981	**1**	2
Operating profit	**$261**	$212	$161	**23**	32

2002

BCS increased 5% reflecting broad-based increases led by strong double-digit growth in China, India, Turkey and Russia. These advances were partially offset by declines in Argentina due to poor macroeconomic conditions. For the year, total concentrate shipments to franchisees grew 6%, while their BCS grew at a slower rate.

Unfavorable foreign currency movements reduced net sales growth by 2 percentage points and operating profit by 7 percentage points as currency weaknesses in Latin America and Egypt were partially offset by stronger currencies in Europe.

Net sales increased 1% and operating profit increased 23% due to the volume gains partially offset by the unfavorable effect of foreign currency movements. We franchised our Gatorade business in certain countries and, as a result, we now sell concentrate as opposed to full goods to bottlers in these countries. The impact of the franchising reduced net sales growth by 2 percentage points. The Gatorade franchising increased operating profit growth by 13 percentage points as a result of prior year operating losses. This growth was partially offset by increases in general and administrative and advertising and marketing expenses.

Bottler case sales increased 5% in 2002 and 4.5% in 2001.

2001

BCS increased 4.5% due to broad-based increases led by Russia, China and Brazil. These increases were partially offset by pricing-related declines in Mexico and Saudi Arabia coupled with a macroeconomic decline in Turkey. For the year, total concentrate shipments to franchisees grew 3%, while their BCS grew at about the same rate.

Net sales increased 2% and operating profit increased 32% primarily due to the volume gains and higher effective net pricing, partially offset by a net unfavorable foreign currency impact. The net unfavorable foreign currency impact reduced net sales growth by 4.5 percentage points, primarily in Europe, Brazil and Egypt, and reduced operating profit growth by 11 percentage points, primarily in Europe. Overall margin improvements contributed to operating profit growth.

QUAKER FOODS NORTH AMERICA

	2002	2001	2000	% Change 2002	% Change 2001
Net sales	**$1,491**	$1,466	$1,453	**2**	1
Operating profit	**$481**	$399	$369	**21**	8

2002

Pound volume increased 2%. Hot cereals and ready-to-eat cereals each contributed 1 percentage point of volume growth driven by new product introductions and product news.

Growth in net sales of 2% and operating profit of 21% was due to increased cereal volume. In addition, the benefit of productivity, merger-related synergies and lower advertising and marketing expense, partially offset by higher oat prices, contributed more than 15 percentage points of the operating profit growth.

Volume increased 2% in 2002 and decreased 1% in 2001.

2001

Pound volume decreased 1% driven by declines in ready-to-eat cereals and bulk cornmeal and oats products, largely offset by growth in hot cereals. The hot cereals growth resulted primarily from new products and flavor varieties.

Growth in net sales of 1% and operating profit of 8% was primarily due to higher effective net pricing, reflecting a mix shift to higher priced products, and the price increases for cereals which more than offset lower overall volume.

CONSOLIDATED STATEMENT OF CASH FLOWS

PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 28, 2002, December 29, 2001 and December 30, 2000

(in millions)	2002	2001	2000
Operating Activities			
Net income	**$ 3,313**	$ 2,662	$ 2,543
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	**1,112**	1,082	1,093
Merger-related costs	**224**	356	–
Other impairment and restructuring charges	**–**	31	184
Cash payments for merger-related costs and other restructuring charges	**(123)**	(273)	(38)
Pension plan contributions	**(820)**	(446)	(103)
Bottling equity income, net of dividends	**(222)**	(103)	(74)
Deferred income taxes	**288**	162	33
Deferred compensation – ESOP	**–**	48	36
Other noncash charges and credits, net	**263**	209	303
Changes in operating working capital, excluding effects of acquisitions and dispositions			
Accounts and notes receivable	**(260)**	7	(52)
Inventories	**(53)**	(75)	(51)
Prepaid expenses and other current assets	**(78)**	(6)	(35)
Accounts payable and other current liabilities	**426**	(236)	219
Income taxes payable	**278**	394	335
Net change in operating working capital	**313**	84	416
Other	**279**	8	(215)
Net Cash Provided by Operating Activities	**4,627**	3,820	4,178
Investing Activities			
Capital spending	**(1,437)**	(1,324)	(1,352)
Sales of property, plant and equipment	**89**	–	57
Acquisitions and investments in noncontrolled affiliates	**(351)**	(432)	(98)
Divestitures	**376**	–	33
Short-term investments, by original maturity			
More than three months – purchases	**(62)**	(2,537)	(4,950)
More than three months – maturities	**833**	2,078	4,585
Three months or less, net	**(14)**	(41)	(9)
Snack Ventures Europe consolidation	**39**	–	–
Net Cash Used for Investing Activities	**(527)**	(2,256)	(1,734)
Financing Activities			
Proceeds from issuances of long-term debt	**11**	324	130
Payments of long-term debt	**(353)**	(573)	(879)
Short-term borrowings, by original maturity			
More than three months – proceeds	**707**	788	198
More than three months – payments	**(809)**	(483)	(155)
Three months or less, net	**40**	(397)	1
Cash dividends paid	**(1,041)**	(994)	(949)
Share repurchases – common	**(2,158)**	(1,716)	(1,430)
Share repurchases – preferred	**(32)**	(10)	–
Quaker share repurchases	**–**	(5)	(254)
Proceeds from reissuance of shares	**–**	524	–
Proceeds from exercises of stock options	**456**	623	690
Net Cash Used for Financing Activities	**(3,179)**	(1,919)	(2,648)
Effect of exchange rate changes on cash and cash equivalents	**34**	–	(4)
Net Increase/(Decrease) in Cash and Cash Equivalents	**955**	(355)	(208)
Cash and Cash Equivalents, Beginning of Year	**683**	1,038	1,246
Cash and Cash Equivalents, End of Year	**$ 1,638**	$ 683	$ 1,038

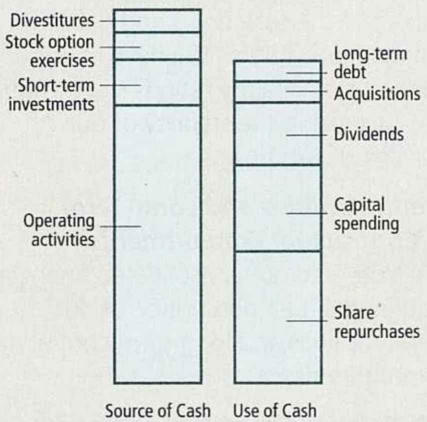
See accompanying notes to consolidated financial statements.

OUR LIQUIDITY AND CAPITAL RESOURCES

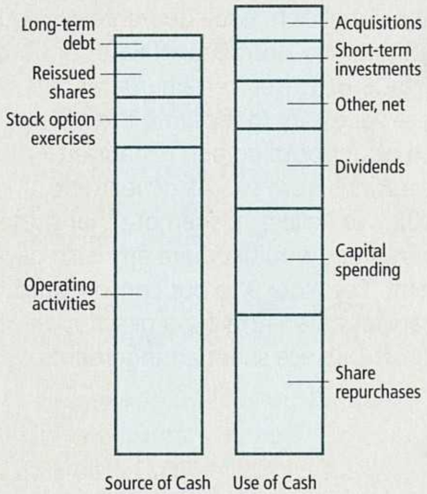
Our strong cash-generating capability and financial condition give us ready access to capital markets throughout the world.

Our principal source of liquidity is operating cash flows, which are derived from net income. This cash-generating capability is one of our fundamental strengths and provides us with substantial financial flexibility in meeting operating, investing and financing needs. We focus on management operating cash flow as a key element in achieving maximum shareholder value.

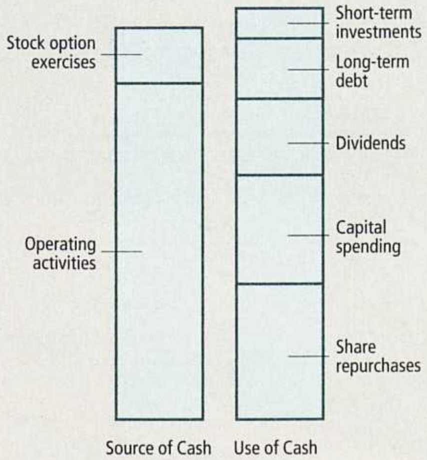
2002 Cash Utilization



2001 Cash Utilization



2000 Cash Utilization



Operating Activities

In 2002, net cash provided by operating activities of $4.6 billion primarily reflects our solid business results and our emphasis on working capital efficiencies. Net cash provided by operating activities includes pension plan contributions of $820 million and a net tax refund of approximately $250 million in 2002. We expect pension plan contributions to be at a significantly lower level in 2003.

In 2001, net cash provided by operating activities of $3.8 billion primarily reflects our solid business results less cash paid for merger-related costs and other restructuring charges.

Investing Activities

In 2002, net cash used in investing activities of $0.5 billion primarily reflects capital spending and acquisitions, primarily the Wotsits brand in the United Kingdom, partially offset by maturities of short-term investments of $0.8 billion and proceeds from the Pepsi-Gemex transaction.

In 2001, net cash used in investing activities of $2.3 billion primarily reflects capital spending, the acquisition of SoBe and purchases of short-term investments of $0.5 billion.

Capital spending was $1.4 billion in 2002, $1.3 billion in 2001 and $1.4 billion in 2000. We expect capital spending to continue at a rate of approximately 5.5% to 6% of net sales.

Financing Activities

In 2002, cash used for financing activities of $3.2 billion primarily reflects share repurchases of $2.2 billion and dividend payments of $1 billion. Our policy is to pay dividends equal to approximately one-third of our previous year's net income.

In 2001, cash used for financing activities of $1.9 billion primarily reflects share repurchases of $1.7 billion and dividend payments of $1.0 billion. These payments were partially offset by the net proceeds of $524 million from the issuance of 13.2 million shares of our repurchased common stock to qualify for pooling-of-interests accounting treatment in connection with the merger with Quaker.

In 2002, our Board of Directors authorized a share repurchase program of up to $5 billion over a three-year period. In 2003, we expect share repurchases to continue at a level consistent with the years presented. In 2001, subsequent to our merger with Quaker, we repurchased shares of our common stock, as permitted by the emergency and exemptive orders from the Securities and Exchange Commission aimed at facilitating the reopening of the United States equities market on September 17, 2001, following the events of September 11th. Our Board of Directors authorized the repurchase of up to $2 billion worth of our common stock during the terms of these orders. Repurchases under these orders did not compromise our accounting for the Quaker merger. All prior authorizations for share repurchases had been rescinded as a result of the PepsiCo and Quaker merger.

Management Operating Cash Flow

Management operating cash flow is the primary measure management uses to monitor cash flow performance. It is not a measure calculated under United States generally accepted accounting principles.

We believe capital spending is a recurring and essential use of cash necessary to maintain our operating capabilities. The table below reconciles net cash provided by operating activities as reflected in our Consolidated Statement of Cash Flows to our management operating cash flow.

	2002	2001	2000
Net cash provided by operating activities	**$ 4,627**	$ 3,820	$ 4,178
Capital spending	**(1,437)**	(1,324)	(1,352)
Sales of property, plant and equipment	**89**	–	57
After-tax interest and forex	**10**	87	116
Management operating cash flow	**$ 3,289**	$ 2,583	$ 2,999

Management operating cash flow was used primarily to fund share repurchases and dividend payments. In 2000, management operating cash flow was also used to reduce long-term debt. We expect management operating cash flow for fiscal year 2003 to remain strong and at levels consistent with the years presented. However, see "Cautionary Statements" for certain factors that may impact our operating cash flows.

Credit Ratings

Our debt ratings of A1 from Moody's and A from Standard & Poor's contribute to our ability to access global capital markets. Each rating is considered a strong investment grade bond rating with strong debt protection measures. These ratings reflect the third highest rankings out of nine-tier ranking systems. They reflect our strong operating cash flows and include the impact of the cash flows and debt of our anchor bottlers. We have maintained these healthy ratings since 1989, demonstrating the stability of our operating cash flows.

Our debt ratings of A1 from Moody's and A from Standard & Poor's represent a strong investment grade bond rating with strong debt protection measures.

Credit Facilities and Long-Term Contractual Commitments

See Note 9 to our consolidated financial statements for a description of our credit facilities and long-term contractual commitments.

Off-Balance Sheet Arrangements

It is not our business practice to enter into off-balance sheet arrangements nor is it our policy to issue guarantees to our bottlers, noncontrolled affiliates or third parties. However, certain guarantees were necessary to facilitate the separation of our bottling and restaurant operations from us. As of year-end 2002, we believe it is remote that these guarantees would require any cash payment. See Note 9 to our consolidated financial statements for a description of our off-balance sheet arrangements.

CONSOLIDATED BALANCE SHEET

PepsiCo, Inc. and Subsidiaries
December 28, 2002 and December 29, 2001

(in millions except per share amounts)	2002	2001
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 1,638**	$ 683
Short-term investments, at cost	**207**	966
	1,845	1,649
Accounts and notes receivable, net	**2,531**	2,142
Inventories	**1,342**	1,310
Prepaid expenses and other current assets	**695**	752
Total Current Assets	**6,413**	5,853
Property, Plant and Equipment, net	**7,390**	6,876
Amortizable Intangible Assets, net	**801**	875
Nonamortizable Intangible Assets	**4,418**	3,966
Investments in Noncontrolled Affiliates	**2,611**	2,871
Other Assets	**1,841**	1,254
Total Assets	**$23,474**	$21,695
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term obligations	**$ 562**	$ 354
Accounts payable and other current liabilities	**4,998**	4,461
Income taxes payable	**492**	183
Total Current Liabilities	**6,052**	4,998
Long-Term Debt Obligations	**2,187**	2,651
Other Liabilities	**4,226**	3,876
Deferred Income Taxes	**1,718**	1,496
Preferred Stock, no par value	**41**	41
Repurchased Preferred Stock	**(48)**	(15)
Common Shareholders' Equity		
Common stock, par value 1 2/3¢ per share (issued 1,782 shares)	**30**	30
Capital in excess of par value	**–**	13
Retained earnings	**13,464**	11,519
Accumulated other comprehensive loss	**(1,672)**	(1,646)
	11,822	9,916
Less: repurchased common stock, at cost (60 and 26 shares, respectively)	**(2,524)**	(1,268)
Total Common Shareholders' Equity	**9,298**	8,648
Total Liabilities and Shareholders' Equity	**$23,474**	$21,695

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMMON SHAREHOLDERS' EQUITY

PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 28, 2002, December 29, 2001 and December 30, 2000

	2002		2001		2000	
(in millions)	**Shares**	**Amount**	Shares	Amount	Shares	Amount
Common Stock						
Balance, beginning of year	**1,782**	**$ 30**	2,029	$ 34	2,030	$ 34
Quaker share repurchases	–	–	–	–	(9)	–
Stock option exercises	–	–	6	–	–	–
Quaker stock option exercises	–	–	3	–	8	–
Shares issued to effect merger	–	–	(256)	(4)	–	–
Balance, end of year	**1,782**	**30**	1,782	30	2,029	34
Capital in Excess of Par Value						
Balance, beginning of year		**13**		375		559
Quaker share repurchases		–		–		(236)
Stock option exercises[a]		**(9)**		82		52
Reissued shares		–		150		–
Shares issued to effect merger		–		(595)		–
Other		**(4)**		1		–
Balance, end of year		–		13		375
Deferred Compensation						
Balance, beginning of year		–		(21)		(45)
Net activity		–		21		24
Balance, end of year		–		–		(21)
Retained Earnings						
Balance, beginning of year		**11,519**		16,510		14,921
Net income[b]		**3,313**		2,662		2,543
Shares issued to effect merger		–		(6,644)		–
Cash dividends declared – common		**(1,042)**		(1,005)		(950)
Cash dividends declared – preferred		**(4)**		(4)		(4)
Stock option exercises[a]		**(322)**		–		–
Balance, end of year		**13,464**		11,519		16,510
Accumulated Other Comprehensive Loss						
Balance, beginning of year		**(1,646)**		(1,374)		(1,085)
Currency translation adjustment[b]		**56**		(218)		(289)
Cash flow hedges, net of tax[b]		**18**		(18)		
Minimum pension liability adjustment, net of tax[b]		**(99)**		(38)		(2)
Other[b]		**(1)**		2		2
Balance, end of year		**(1,672)**		(1,646)		(1,374)
Repurchased Common Stock						
Balance, beginning of year	**(26)**	**(1,268)**	(280)	(7,920)	(271)	(7,306)
Share repurchases	**(53)**	**(2,192)**	(35)	(1,716)	(38)	(1,430)
Stock option exercises	**19**	**931**	20	751	29	816
Reissued shares	–	–	13	374	–	–
Shares issued to effect merger	–	–	256	7,243	–	–
Other	–	**5**	–	–	–	–
Balance, end of year	**(60)**	**(2,524)**	(26)	(1,268)	(280)	(7,920)
Total Common Shareholders' Equity		**$ 9,298**		$ 8,648		$ 7,604

(a) Includes total tax benefit of $143 million in 2002, $212 million in 2001 and $177 million in 2000.

(b) Combined these amounts represent total comprehensive income of $3,287 million in 2002, $2,390 million in 2001 and $2,254 million in 2000.

See accompanying notes to consolidated financial statements.

NOTE 1 – BASIS OF PRESENTATION AND OUR DIVISIONS

Basis of Presentation

Our financial statements include the consolidated accounts of PepsiCo, Inc. and the affiliates that we control. In addition, we include our share of the results of certain other affiliates based on our ownership interest. We do not control these other affiliates as our ownership in these other affiliates is generally less than fifty percent. Our share of the net income of noncontrolled bottling affiliates is reported in our income statement as bottling equity income. See Note 8 for additional information on our noncontrolled bottling affiliates. Our share of other noncontrolled affiliates is included in division operating profit. As a result of changes in the operations of our European snack joint venture, Snack Ventures Europe (SVE), we determined that effective in 2002, consolidation was required. Therefore, SVE's results of operations are consolidated with PepsiCo in 2002. Intercompany balances and transactions are eliminated.

The preparation of our consolidated financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Our fiscal year ends on the last Saturday in December and, as a result, a 53rd week is added every fifth or sixth year. The fiscal year ended December 30, 2000 consisted of fifty-three weeks.

The impact of the 53rd week and certain other items, such as merger-related costs (described in Note 3), the adoption of SFAS 142 (described in Note 4) and the SVE consolidation affect the comparability of our consolidated results. For additional unaudited information on these items, see "Our Divisions" below and "Items Affecting Comparability" in Management's Discussion and Analysis.

Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless noted, and are based on unrounded amounts. Certain reclassifications were made to prior year amounts to conform to the 2002 presentation.

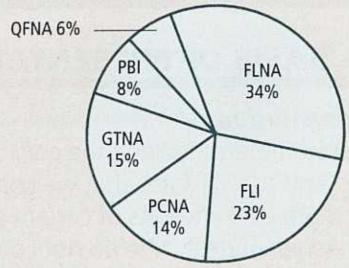
We manufacture, market and sell a variety of salty, sweet and grain-based snacks, carbonated and noncarbonated beverages, and foods through our North American and international business divisions. Our North American divisions include the United States and Canada. The accounting policies for the divisions are the same as those described in Note 2.

Division results are based on how our Chief Executive Officer manages our divisions. Beginning in 2003, we will combine our North American beverage businesses as PepsiCo Beverages North America and our international food and beverage businesses as PepsiCo International to reflect operating and management changes. Merger-related costs and significant other impairment and restructuring charges are not included in division results. In addition, prior year division results are adjusted to reflect the adoption of SFAS 142 and consolidation of SVE, and exclude divested businesses. For additional unaudited information on our divisions, see "Our Operations" in Management's Discussion and Analysis.

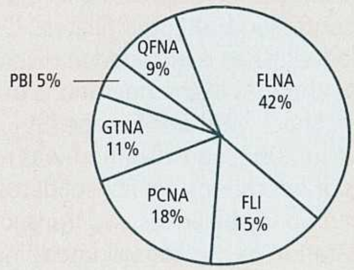
OUR DIVISIONS

	2002	2001	2000	2002	2001	2000
	Net Sales			Operating Profit		
Snacks						
– FLNA	**$ 8,565**	$ 8,216	$ 7,769	**$2,216**	$2,056	$1,875
– FLI	**5,713**	5,492	5,172	**781**	651	577
Beverages						
– PCNA	**3,365**	3,189	2,657	**987**	881	820
– GTNA	**3,835**	3,699	3,514	**590**	585	554
– PBI	**2,036**	2,012	1,981	**261**	212	161
QFNA	**1,491**	1,466	1,453	**481**	399	369
Total division	**25,005**	24,074	22,546	**5,316**	4,784	4,356
Divested businesses	**107**	144	145	**15**	29	36
Corporate				**(377)**	(371)	(331)
	25,112	24,218	22,691	**4,954**	4,442	4,061
Merger-related costs	**–**	–	–	**(224)**	(356)	–
Other impairment and restructuring charges	**–**	–	–	**–**	(31)	(184)
Other	**–**	–	–	**–**	2	(17)
SVE consolidation	**–**	(706)	(648)	**–**	(13)	(16)
SFAS 142 adoption	**–**	–	–	**–**	(23)	(88)
53rd week in 2000	**–**	–	294	**–**	–	62
Total	**$25,112**	$23,512	$22,337	**$4,730**	$4,021	$3,818

Division Net Sales Contribution



Division Operating Profit Contribution



Divested Businesses – During 2002, we sold our Quaker Foods North America bagged cereal business and our Frito-Lay International food businesses in Colombia and Venezuela. A net loss of $5 million was recorded on the sale of these businesses. The net loss and results prior to the divestitures are presented as divested businesses. Prior year division operating results have been reclassified as follows:

	2001	2000	2001	2000
	Net Sales		Operating Profit	
Frito-Lay International	$ 44	$ 41	$ 6	$ 6
Quaker Foods North America	100	104	23	30
	$144	$145	$29	$36

Corporate – Corporate includes costs of our corporate headquarters, centrally managed initiatives, unallocated insurance and benefit programs, foreign exchange transaction gains and losses and certain one-time charges.

Merger-Related Costs – See Note 3.

Other Impairment and Restructuring Changes – We incurred other impairment and restructuring costs for Quaker's supply chain reconfiguration and manufacturing and distribution optimization project initiated in 1999. Approximately $14 million of these costs remain payable at December 28, 2002 and $23 million was payable at December 29, 2001.

Other – This adjustment primarily reflects the reclassification of our prepaid forward contracts. For more unaudited information on these prepaid forward contracts, see "Items Affecting Comparability" in Management's Discussion and Analysis.

The following items are necessary to reconcile division results to consolidated results since, as noted above, division results are presented as managed.

SVE Consolidation – We have consolidated SVE in 2002. As a result, prior period amounts were adjusted to include SVE for planning and performance measurement purposes as follows:

	2001	2000
Frito-Lay International net sales	$706	$648
Frito-Lay International operating profit	$14	$17
Corporate	$(1)	$(1)

SFAS 142 Adoption – In 2002, we adopted SFAS 142, *Goodwill and Other Intangible Assets*, which eliminated amortization of goodwill and perpetual brands, and resulted in an acceleration of the amortization of certain of our other intangibles. See Note 4 for additional information, and the after-tax impact. After adoption, prior period division results were adjusted for planning and performance measurement purposes as follows:

	2001	2000
Frito-Lay International	$ 18	$ 32
Pepsi-Cola North America	(50)	–
PepsiCo Beverages International	(21)	(20)
Gatorade/Tropicana North America	69	69
Quaker Foods North America	7	7
	$ 23	$ 88

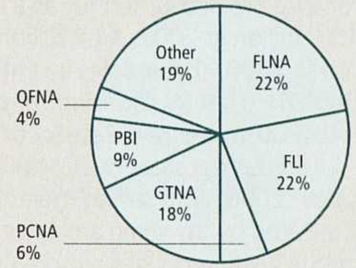
53rd Week in 2000 – Since we manage our results on a fifty-two week basis, the impact of the 53rd week in 2000 is excluded as shown.

	Net Sales	Operating Profit
Frito-Lay North America	$164	$40
Frito-Lay International	61	10
Pepsi-Cola North America	36	13
Gatorade/Tropicana North America	33	5
	$294	68
Corporate		(6)
		$62

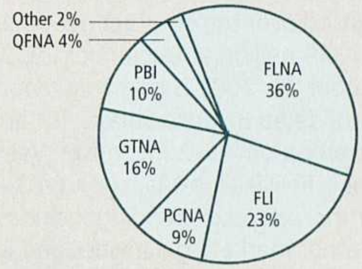
OTHER DIVISION INFORMATION

	2002	2001	2000	2002	2001	2000
	Total Assets			Capital Spending		
Snacks						
– FLNA	**$ 5,099**	$ 4,623	$ 4,282	**$ 523**	$ 514	$ 524
– FLI[(a)]	**5,131**	4,321	4,278	**337**	290	276
Beverages						
– PCNA	**1,380**	1,325	836	**135**	70	59
– GTNA	**4,311**	4,078	3,893	**232**	289	261
– PBI	**2,144**	2,038	2,202	**136**	95	98
QFNA	**1,001**	878	917	**50**	55	95
Total division	**19,066**	17,263	16,408	**1,413**	1,313	1,313
Divested businesses	**–**	58	80	**1**	3	3
Corporate[(b)]	**2,072**	1,927	1,737	**23**	8	36
Investments in bottling affiliates	**2,336**	2,447	2,532	**–**	–	–
	$23,474	$21,695	$20,757	**$1,437**	$1,324	$1,352
	Amortization of Intangible Assets			Depreciation and Other Amortization		
Snacks						
– FLNA	**$ 3**	$ 7	$ 7	**$399**	$377	$374
– FLI	**27**	31	13	**219**	211	206
Beverages						
– PCNA	**70**	69	2	**69**	64	94
– GTNA	**–**	–	–	**137**	129	118
– PBI	**37**	37	36	**81**	99	111
QFNA	**1**	1	1	**37**	41	49
Total division	**138**	145	59	**942**	921	952
Divested businesses	**–**	–	–	**3**	4	3
Corporate	**–**	–	–	**29**	18	16
SVE consolidation	**–**	(3)	–	**–**	(26)	(25)
SFAS 142 adoption	**–**	23	88	**–**	–	–
	$138	$165	$147	**$974**	$917	$946
	Net Sales			Long-Lived Assets[(c)]		
United States	**$16,588**	$15,976	$15,076	**$ 9,767**	$ 9,439	$ 9,035
Mexico	**2,686**	2,609	2,404	**764**	1,065	934
United Kingdom	**1,106**	954	946	**1,529**	1,104	1,156
Canada	**967**	896	866	**410**	375	367
All other countries	**3,765**	3,077	3,045	**2,750**	2,605	2,759
	$25,112	$23,512	$22,337	**$15,220**	$14,588	$14,251

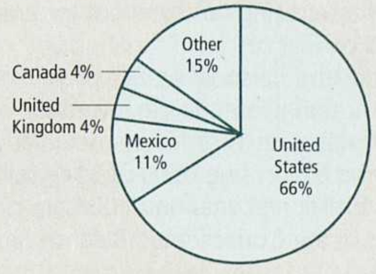
Total Assets



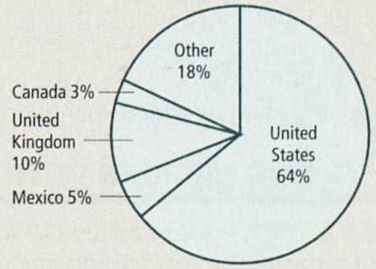
Capital Spending



Net Sales



Long-Lived Assets



(a) Frito-Lay International assets include investments in noncontrolled affiliates, principally Productos SAS, of $145 million in 2002 and $155 million in 2001.

(b) Corporate assets consist principally of cash and cash equivalents, short-term investments primarily held outside the United States and property, plant and equipment.

(c) Long-lived assets represent net property, plant and equipment, nonamortizable and net amortizable intangible assets and investments in noncontrolled affiliates.

NOTE 2 – OUR SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

We recognize revenue upon delivery to our customers in accordance with written sales terms that do not allow for a right of return. However, our policy for direct-store-delivery and chilled products is to remove and replace out-of-date products from store shelves to ensure that our consumers receive the product quality and freshness that they expect. Based on our historical experience with this practice, we have reserved for anticipated out-of-date product. For additional unaudited information on our revenue recognition and related policies, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.

Sales Incentives and Other Marketplace Spending

We offer sales incentives through various programs to our customers, consumers and, for PCNA, directly to certain retailers. Sales incentives are accounted for as a reduction to sales and totaled $5.5 billion in 2002, $4.7 billion in 2001 and $4.3 billion in 2000. These sales incentives include the impact of adopting EITF 01-9, *Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products*, which reduced our net sales by $3.4 billion in 2001 and $3.1 billion in 2000, with selling, general and administrative expenses reduced by the same amounts. Most of these incentive arrangements have terms of no more than one year. However, we have arrangements, such as fountain pouring rights, which extend up to twelve years. Costs incurred to obtain these rights are expensed over the contract period and the remaining balance of $349 million at December 28, 2002 and $374 million at December 29, 2001 is primarily reported in other assets in the Consolidated Balance Sheet. For additional unaudited information on our sales incentives, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.

Other marketplace spending includes the costs of advertising and other marketing activities and is reported as selling, general and administrative expenses. Advertising expenses were $1.5 billion in 2002 and $1.7 billion in 2001 and 2000. Deferred advertising costs are not expensed until the year first used and consist of:

- media and personal service prepayments,
- promotional materials in inventory, and
- production costs of future media advertising.

Deferred advertising costs of $147 million at year-end 2002 and $111 million at year-end 2001 are classified as prepaid expenses in the Consolidated Balance Sheet.

Distribution Costs

Distribution costs, including the costs of shipping and handling activities, are reported as selling, general and administrative expenses for direct-store-delivery distribution systems. For our other distribution systems, these costs are reported in cost of sales. Shipping and handling expenses classified as selling, general and administrative expenses were $2.8 billion in 2002, $2.6 billion in 2001 and $2.5 billion in 2000.

Cash Equivalents

Cash equivalents are investments with original maturities of three months or less.

Commitments and Contingencies

We are subject to various claims and contingencies related to lawsuits, taxes and environmental matters, as well as commitments under contractual and other commercial obligations. We recognize liabilities for contingencies and commitments when a loss is probable and estimable. For additional information on our commitments and other contractual and commercial obligations, see Note 9.

Other Significant Accounting Policies

Our other significant accounting policies are disclosed as follows:

- *Income Taxes* – Note 5 and, for additional unaudited information, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.
- *Pension and Retiree Medical Plans* – Note 6 and, for additional unaudited information, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.
- *Employee Stock Options* – Note 7.
- *Risk Management* – Note 10 and, for additional unaudited information, see "Our Market Risks" in Management's Discussion and Analysis.
- *Property, Plant and Equipment and Intangible Assets* – Note 4 and, for additional unaudited information on brands and goodwill, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.

Pending Accounting Changes

In June 2001, the FASB issued SFAS 143, *Accounting for Asset Retirement Obligations*. SFAS 143 addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets. It requires that we recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. We currently have no significant asset retirement obligations, and therefore, adoption will have no impact on our consolidated financial statements.

In June 2002, the FASB issued SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS 146 addresses the accounting and reporting for costs associated with restructuring activities. This new standard changes the timing of the recognition of restructuring charges. Liabilities for restructuring costs will be required to be recognized when the liability is incurred rather than when we commit to the plan. SFAS 146 is effective for restructuring activity initiated after December 31, 2002.

NOTE 3 – OUR MERGER WITH QUAKER

On August 2, 2001, we completed our merger with Quaker. Under the terms of the merger agreement, we issued approximately 306 million shares of our common stock in exchange for all the outstanding common stock of Quaker.

The merger was accounted for as a tax-free transaction and as a pooling-of-interests. As a result, all prior period consolidated financial statements presented have been restated to include the results of operations, financial position and cash flows of both companies as if they had always been combined. Certain reclassifications were made to conform the presenta-

tion of the financial statements, and the fiscal calendar and certain interim reporting policies were also conformed. There were no material transactions between pre-merger PepsiCo and Quaker.

We have recognized the following costs associated with our merger with Quaker:

	2002	2001
Transaction costs	**$ –**	$ 117
Integration and restructuring costs	**224**	239
Total merger-related costs	**$ 224**	$ 356
After-tax	**$ 190**	$ 322
Per share	**$0.11**	$0.18

Transaction costs were incurred to complete the merger and consist primarily of fees and expenses for investment bankers, attorneys and accountants, SEC filing fees, stock exchange listing fees and financial printing and other related charges.

Integration and restructuring costs represent incremental one-time merger-related costs. Such costs include consulting fees and expenses, employee-related costs, information system integration costs, asset impairments and other costs related to the integration of Quaker. Employee-related costs include retirement benefit and severance costs and expenses related to change-in-control provisions of pre-merger employment contracts. As of December 28, 2002, an accrual has been recorded for costs associated with the termination of approximately 1,100 corporate, sales, distribution, manufacturing, research, information technology and marketing employees, a majority of which have occurred. We expect to incur additional costs in 2003 to integrate the two companies.

Merger-related integration and restructuring reserves are included within accounts payable and other current liabilities in the Consolidated Balance Sheet.

Merger-related integration and restructuring reserves:

	Integration	Employee Related	Asset Impairment	Facility and Other Exit	Total
2001 costs	$124	$106	$ 1	$ 8	$ 239
Cash payments	(80)	(33)	–	(2)	(115)
Reclassification to retiree medical/postemployment liabilities	–	(22)	–	–	(22)
Other noncash utilization	(22)	–	(1)	(2)	(25)
Reserves, December 29, 2001	22	51	–	4	77
2002 costs	**90**	**53**	**56**	**25**	**224**
Cash payments	**(62)**	**(43)**	**–**	**(13)**	**(118)**
Reclassification to retiree medical/postemployment liabilities	**(7)**	**(9)**	**–**	**–**	**(16)**
Other noncash utilization	**–**	**(4)**	**(56)**	**(10)**	**(70)**
Reserves, December 28, 2002	**$ 43**	**$ 48**	**$ –**	**$ 6**	**$ 97**

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Useful Life	2002	2001	2000
Property, plant and equipment, net				
Land and improvements		**$ 504**	$ 464	
Buildings and improvements	20 - 40 yrs.	**3,119**	2,846	
Machinery and equipment, including fleet	5 - 15	**9,005**	8,135	
Construction in progress		**767**	735	
		13,395	12,180	
Accumulated depreciation		**(6,005)**	(5,304)	
		$ 7,390	$ 6,876	
Depreciation expense		**$929**	$843	$840
Amortizable intangible assets, net				
Brands	5 - 40	**$ 938**	$ 869	
Other identifiable intangibles	3 - 15	**203**	207	
		1,141	1,076	
Accumulated amortization		**(340)**	(201)	
		$ 801	$ 875	
Amortization expense		**$138**	$165	$147

Depreciation and amortization are recognized on a straight-line basis over an asset's estimated useful life. Land is not depreciated and construction in progress is not depreciated until ready for service. Amortization for each of the next five years, based on existing intangible assets and 2002 foreign exchange rates, is expected to be $138 million in 2003, $129 million in 2004 and 2005 and $19 million thereafter.

No impairment charges resulted from the adoption of SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Depreciable and amortizable assets are only evaluated for impairment upon a significant change in the operating or macroeconomic environment. In these circumstances, if an evaluation of the undiscounted cash flows indicates impairment, the asset is written down to its estimated fair value, which is generally based on discounted future cash flows. Useful lives are periodically evaluated to determine whether events or circumstances have occurred which indicate the need to revise the useful lives. For additional unaudited information on our amortizable brand policies, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.

Nonamortizable Intangible Assets

Perpetual brands and goodwill are assessed for impairment at least annually to ensure that future cash flows continue to exceed the related book value. A perpetual brand is impaired if its book value exceeds its fair value. Goodwill is evaluated for impairment if the book value of its reporting unit exceeds its fair value. A reporting unit can be a division or business. If the fair value of an evaluated asset is less than its book value, the asset is written down based on its discounted future cash flows to fair value. No impairment charges resulted from the required impairment evaluations in 2002. The change in the book value of nonamortizable intangible assets during 2002 is as shown.

	Balance, Beginning of Year	Acquisitions	Translation and Other	Balance, End of Year
Frito-Lay North America				
Goodwill	$ 107	$ –	$ 2	**$ 109**
Frito-Lay International[(a)]				
Goodwill	788	39	109	**936**
Brands	427	248	45	**720**
	1,215	287	154	**1,656**
Gatorade/Tropicana North America				
Goodwill	2,148	–	1	**2,149**
Brands	59	–	–	**59**
	2,207	–	1	**2,208**
PepsiCo Beverages International				
Goodwill	250	–	–	**250**
Quaker Foods North America				
Goodwill	187	–	–	**187**
Corporate				
Pension intangible	–	–	8	**8**
Total goodwill	3,480	39	112	**3,631**
Total brands	486	248	45	**779**
Total pension intangible	–	–	8	**8**
	$3,966	$287	$165	**$4,418**

(a) Beginning of year balance includes the impact of consolidating Snack Ventures Europe in 2002 for Frito-Lay International.

We adopted SFAS 142, *Goodwill and Other Intangible Assets*, in 2002. Prior to the adoption of SFAS 142, our nonamortizable intangible assets had useful lives ranging from 20 to 40 years. The table to the right provides pro forma disclosure of the elimination of goodwill and perpetual brands amortization and the acceleration of certain other amortization as if SFAS 142 had been adopted in 2000.

For additional unaudited information on our goodwill and nonamortizable brand policies, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.

	2001	2000
Reported net income	$2,662	$2,543
Cease goodwill amortization	112	112
Adjust brands amortization	(67)	(22)
Cease equity investee goodwill amortization	57	61
Adjusted net income	$2,764	$2,694
Reported earnings per common share – basic	$ 1.51	$ 1.45
Cease goodwill amortization	0.06	0.06
Adjust brands amortization	(0.03)	(0.01)
Cease equity investee goodwill amortization	0.03	0.03
Adjusted earnings per common share – basic	$ 1.57	$ 1.53
Reported earnings per common share – diluted	$ 1.47	$ 1.42
Cease goodwill amortization	0.06	0.06
Adjust brands amortization	(0.03)	(0.01)
Cease equity investee goodwill amortization	0.03	0.03
Adjusted earnings per common share – diluted	$ 1.53	$ 1.50

NOTE 5 – INCOME TAXES

		2002	2001	2000
Income before income taxes				
U.S.		**$3,516**	$2,922	$2,574
Foreign		**1,352**	1,107	1,187
		$4,868	$4,029	$3,761
Provision for income taxes				
Current:	U.S. Federal	**$ 956**	$ 926	$ 958
	Foreign	**256**	226	165
	State	**55**	53	62
		1,267	1,205	1,185
Deferred:	U.S. Federal	**255**	159	31
	Foreign	**11**	(8)	(7)
	State	**22**	11	9
		288	162	33
		$1,555	$1,367	$1,218
Tax rate reconciliation				
U.S. Federal statutory tax rate		**35.0%**	35.0%	35.0%
State income tax, net of U.S. Federal tax benefit		**1.0**	1.0	1.2
Lower taxes on foreign results		**(3.9)**	(4.3)	(2.9)
Merger-related costs and other impairment and restructuring charges		**0.9**	2.3	(0.2)
Other, net		**(1.1)**	(0.1)	(0.7)
Effective tax rate		**31.9%**	33.9%	32.4%
Deferred tax liabilities				
Investments in noncontrolled affiliates		**$ 753**	$ 702	
Property, plant and equipment		**746**	804	
Safe harbor leases		**57**	82	
Zero coupon notes		**61**	68	
Intangible assets other than nondeductible goodwill		**127**	121	
Other		**669**	480	
Gross deferred tax liabilities		**2,413**	2,257	
Deferred tax assets				
Net carryforwards		**504**	538	
Retiree medical benefits		**315**	320	
Various current and noncurrent liabilities		**642**	805	
Gross deferred tax assets		**1,461**	1,663	
Valuation allowances		**(487)**	(511)	
Deferred tax assets, net		**974**	1,152	
Net deferred tax liabilities		**$1,439**	$1,105	
Included within:				
Prepaid expenses and other current assets		**$279**	$391	
Deferred income taxes		**$1,718**	$1,496	

Operating loss carryforwards totaling $3.3 billion at year-end 2002 are being carried forward in a number of foreign and state jurisdictions where we are permitted to use tax operating losses from prior periods to reduce future taxable income. These operating losses will expire as follows: $0.1 billion in 2003, $2.9 billion between 2004 and 2018 and $0.3 billion may be carried forward indefinitely. In addition, certain tax credits generated in prior periods of approximately $72 million are available to reduce certain foreign tax liabilities through 2011. We establish valuation allowances for our deferred tax assets when the amount of expected future taxable income is not likely to support the use of the deduction or credit.

We have not recognized any United States tax expense on undistributed international earnings since we have the intention to reinvest the earnings outside the United States for the foreseeable future. These undistributed earnings are approximately $7.5 billion at December 28, 2002.

Analysis of valuation allowances:

	2002	2001	2000
Balance, beginning of year	**$511**	$ 813	$804
(Benefit)/provision	**(22)**	(300)	7
Other (deductions)/additions	**(2)**	(2)	2
Balance, end of year	**$487**	$ 511	$813

For additional unaudited information on our income tax policies, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.

NOTE 6 – PENSION AND RETIREE MEDICAL PLANS

Our pension plans cover full-time U.S. employees and certain international employees. Benefits are determined based on either years of service or a combination of years of service and earnings. U.S. employees are also eligible for medical and life insurance benefits (retiree medical) if they meet age and service requirements and qualify for retirement benefits. We use a September 30 measurement date. Prior service costs are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.

For additional unaudited information on our pension and retiree medical plans and related accounting policies and assumptions, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.

	2002	2001	2000
Weighted average pension assumptions			
Liability discount rate	**6.7%**	7.4%	7.7%
Expected return on plan assets	**9.1%**	9.8%	9.9%
Rate of salary increases	**4.4%**	4.6%	4.5%
Components of pension expense			
Service cost	**$ 156**	$ 127	$ 120
Interest cost	**265**	233	221
Expected return on plan assets	**(329)**	(301)	(277)
Amortization of transition asset	**(1)**	(2)	(3)
Amortization of prior service costs	**6**	8	13
Amortization of experience loss/(gain)	**5**	(9)	(18)
Pension expense	**102**	56	56
Curtailment/settlement loss	**–**	1	6
Special termination benefits	**9**	26	–
Total	**$ 111**	$ 83	$ 62

	2002	2001	2000
Liability discount rate	**6.7%**	7.5%	7.8%
Components of retiree medical expense			
Service cost	**$25**	$20	$22
Interest cost	**66**	63	58
Amortization of prior service costs	**(7)**	(12)	(12)
Amortization of experience loss/(gain)	**3**	–	(1)
Retiree medical expense	**87**	71	67
Curtailment loss	–	–	2
Special termination benefits	**1**	1	–
Total	**$88**	$72	$69

	2002	2001	2002	2001
	Pension		Retiree Medical	
Change in benefit liability				
Liability at beginning of year	**$3,556**	$3,170	**$ 911**	$834
Service cost	**156**	127	**25**	20
Interest cost	**265**	233	**66**	63
Plan amendments	**12**	10	**(25)**	1
Participant contributions	**6**	5	–	–
Experience loss	**514**	170	**205**	50
Benefit payments	**(234)**	(170)	**(63)**	(58)
Curtailment loss	–	2	–	–
Special termination benefits	**9**	26	**1**	1
Foreign currency adjustment	**40**	(17)	–	–
Liability at end of year	**$4,324**	$3,556	**$1,120**	$911
Change in fair value of plan assets				
Fair value at beginning of year	**$3,129**	$3,251	**$ –**	$ –
Actual loss on plan assets	**(221)**	(382)	–	–
Employer contributions	**820**	446	**63**	58
Participant contributions	**6**	5	–	–
Benefit payments	**(234)**	(170)	**(63)**	(58)
Foreign currency adjustment	**37**	(21)	–	–
Fair value at end of year	**$3,537**	$3,129	**$ –**	$ –
Funded status as recognized in the Consolidated Balance Sheet				
Funded status at end of year	**$ (787)**	$(427)	**$(1,120)**	$ (911)
Unrecognized prior service cost	**44**	38	**(23)**	(5)
Unrecognized experience loss	**1,631**	548	**294**	91
Unrecognized transition asset	**(1)**	(2)	–	–
Net amounts recognized	**$ 887**	$ 157	**$ (849)**	$ (825)

	2002	2001	2002	2001
	Pension		Retiree Medical	
Net amounts as recognized in the Consolidated Balance Sheet				
Other assets	**$1,097**	$ 396	**$ –**	$ –
Intangible assets	**8**	–	–	–
Accrued benefit liability	**(283)**	(261)	**(849)**	(825)
Accumulated other comprehensive income	**65**	22	–	–
Net amounts recognized	**$ 887**	$ 157	**$(849)**	$(825)
Selected information for plans with liability to date in excess of plan assets				
Liability for service to date	**$(419)**	$(252)	**$(1,120)**	$(911)
Projected benefit liability	**$(656)**	$(419)	**$(1,120)**	$(911)
Fair value of plan assets	**$182**	$51	–	–

Of the total projected pension benefit liability at year-end 2002, $416 million relates to plans that we do not fund because of unfavorable tax treatment.

Pension Assets

Pension assets include approximately 5.5 million shares of PepsiCo common stock with a market value of $202 million in 2002, and 4.7 million shares with a market value of $227 million in 2001. Our investment policy limits the investment in PepsiCo stock to 10% of the fair value of plan assets.

Retiree Medical Cost Trend Rates

An average increase of 10% in the cost of covered retiree medical benefits is assumed for 2003. This average increase is then projected to decline gradually to 4.5% in 2007 and thereafter. Generally, our costs are capped at a specified dollar amount, with retirees contributing the remainder. These assumed health care cost trend rates have a significant impact on the retiree medical plan expense and liability. A 1 percentage point change in the assumed health care trend rate would have the following effects:

	1% Increase	1% Decrease
2002 service and interest cost components	$7	$(6)
2002 benefit liability	$37	$(34)

NOTE 7 – EMPLOYEE STOCK OPTIONS

Our stock option program is a broad-based program designed to attract and retain talent while creating alignment with the interests of our shareholders. Employees at all levels participate in our stock option program. In addition, members of our Board of Directors receive stock options for their service on our Board. Stock options are granted to employees under the following active plans.

SharePower Stock Option Plan (SharePower)

SharePower options are awarded to all eligible employees based on annual earnings and tenure, become exercisable after three years and have a 10-year term. SharePower options represent approximately 20% of our annual employee option grants. At year-end 2002, 35.1 million shares were available for future awards under SharePower.

Long-Term Incentive Plan (LTIP)

All senior management and certain middle management are awarded LTIP grants, generally based on a multiple of base salary. LTIP options generally become exercisable at the end of three years and have a 10-year term. Beginning in 2001, the entire award was made in stock options. Prior to 2001, two-thirds of the award consisted of stock options with the balance in stock options or paid in cash based on the employee's selection. Amounts expensed for expected cash payments were $18 million in 2002 and $37 million in 2001 and 2000. At year-end 2002, 36.6 million shares were available for future awards under the LTIP.

Stock Option Incentive Plan (SOIP)

SOIP options are available to middle management employees based on a multiple of base salary. SOIP options generally become exercisable at the end of three years and have a 10-year term. At year-end 2002, 29.3 million shares were available for future awards under the SOIP.

Accounting Policy

We account for employee stock options using the intrinsic value method rather than the fair value method. Under the intrinsic value method, compensation expense is measured as the excess, if any, of the market value of PepsiCo common stock at the award date over the amount the employee must pay for the stock (exercise price). Our policy is to award stock options with an exercise price equal to the market value at the date of award, and accordingly, no compensation expense is recognized. If the fair value method of accounting had been used, compensation expense would have been recognized over the vesting period of the awards resulting in lower net income and net income per common share as shown. We have no current plans to change our intrinsic value accounting. We believe there are a number of valuation issues with the fair value method that still need to be resolved as well as potential changes necessary to reconcile international and United States standards. Upon resolution of these matters, we will be better able to consider implementation of the fair value method.

	2002	2001	2000
Pro forma impact of fair value method			
Reported net income	**$3,313**	$2,662	$2,543
Less: fair value impact of employee stock compensation	**(360)**	(306)	(200)
Pro forma net income	**$2,953**	$2,356	$2,343
Earnings per common share			
Basic – as reported	**$1.89**	$1.51	$1.45
Diluted – as reported	**$1.85**	$1.47	$1.42
Basic – pro forma	**$1.68**	$1.33	$1.34
Diluted – pro forma	**$1.65**	$1.30	$1.31
Weighted average Black-Scholes fair value assumptions			
Risk free interest rate	**4.4%**	4.8%	6.7%
Expected life	**6 yrs.**	5 yrs.	5 yrs.
Expected volatility	**27%**	29%	29%
Expected dividend yield	**1.14%**	0.98%	1.08%

Stock option activity[(a)]:

	2002		2001		2000	
	Options	**Average Price[(b)]**	Options	Average Price[(b)]	Options	Average Price[(b)]
Outstanding at beginning of year	**176,922**	**$32.35**	170,640	$28.08	188,661	$25.82
Granted	**37,376**	**48.75**	40,432	43.53	28,660	31.92
Exercised	**(19,558)**	**23.32**	(29,064)	21.59	(37,039)	18.40
Forfeited/expired	**(4,308)**	**39.01**	(5,086)	34.83	(9,642)	33.93
Outstanding at end of year	**190,432**	**36.45**	176,922	32.35	170,640	28.08
Exercisable at end of year	**82,620**	**$30.14**	83,521	$26.32	75,129	$21.27
Weighted average fair value of options granted		**$15.20**		$13.53		$12.04

Stock options outstanding and exercisable at December 28, 2002[(a)]:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Options	Average Life[(c)]	Average Price[(b)]	Options	Average Price[(b)]
$ 5.95 to $18.37	8,867	1.39 yrs.	$14.78	8,867	$14.78
$18.58 to $35.53	77,856	5.30	29.32	38,278	25.55
$36.50 to $51.50	103,709	7.84	43.69	35,475	39.04
	190,432	6.46	36.45	82,620	30.14

(a) Options in thousands and include options granted under Quaker plans.
(b) Weighted average exercise price.
(c) Weighted average contractual life remaining in years.

NOTE 8 – NONCONTROLLED BOTTLING AFFILIATES

Our most significant noncontrolled bottling affiliates are The Pepsi Bottling Group (PBG) and PepsiAmericas (PAS). These affiliates account for over 40% of our worldwide bottler case sales.

The Pepsi Bottling Group

In addition to approximately 38% of PBG's outstanding common stock that we own at year-end 2002, we own 100% of PBG's class B common stock and approximately 7% of the equity of Bottling Group, LLC, PBG's principal operating subsidiary. This gives us economic ownership of approximately 42% of PBG's combined operations. PBG's summarized financial information is as follows:

	2002	2001
Current assets	**$ 1,737**	$1,548
Noncurrent assets	**8,290**	6,309
Total assets	**$10,027**	$7,857
Current liabilities	**$1,248**	$1,081
Noncurrent liabilities	**6,607**	4,856
Minority interest	**348**	319
Total liabilities	**$8,203**	$6,256
Our investment	**$1,107**	$962

	2002	2001	2000
Net sales	**$9,216**	$8,443	$7,982
Gross profit	**$4,215**	$3,863	$3,577
Operating profit	**$898**	$676	$590
Net income	**$428**	$305	$229

In December 2002, PBG acquired Pepsi-Gemex, a franchise bottler in Mexico, in which we previously held a 34% ownership interest. Under the terms of the agreement, we received the cash tender price for our Pepsi-Gemex shares, net of a payment of $17 million to PBG. Including the gain from our net investment hedge, the transaction resulted in an after-tax loss of approximately $8 million. The table above includes the results of Pepsi-Gemex from the transaction date forward.

Our investment in PBG was $118 million higher than our ownership interest in their net assets at year-end 2002. Based upon the quoted closing price of PBG shares at year-end 2002, the calculated market value of our shares in PBG, excluding our investment in Bottling Group, LLC, exceeded our investment balance by approximately $1.9 billion.

PepsiAmericas

PepsiAmericas was formed in December 2000 when two of our bottling affiliates, Whitman and PepsiAmericas, merged. At year-end 2002, we owned approximately 39% of the combined company. PepsiAmericas' summarized financial information is as follows:

	2002	2001
Current assets	**$ 550**	$ 481
Noncurrent assets	**3,013**	2,938
Total assets	**$3,563**	$3,419
Current liabilities	**$ 698**	$ 643
Noncurrent liabilities	**1,416**	1,346
Total liabilities	**$2,114**	$1,989
Our investment	**$782**	$746

	2002	2001	2000
Net sales	**$3,240**	$3,144	$2,511
Gross profit	**$1,272**	$1,232	$1,017
Operating profit	**$301**	$268	$223
Income from continuing operations	**$136**	$90	$72
Net income	**$130**	$19	$80

The above financial information for 2000 includes the results of the former PepsiAmericas after the date of the merger with Whitman.

Our investment in PAS was $215 million higher than our ownership interest in their net assets at year-end 2002. Based upon the quoted closing price of PAS shares at year-end 2002, the calculated market value of our shares in PepsiAmericas was less than our investment balance by approximately $27 million.

Related Party Transactions

Our significant related party transactions involve our noncontrolled bottling affiliates. We sell concentrate to these affiliates that is used in the production of carbonated soft drinks and noncarbonated beverages. The sale of concentrate is reported net of bottler funding. We also sell certain finished goods to these affiliates and we receive royalties for the use of our trademark for certain products. For further unaudited information on these bottlers, see "Our Customers" in Management's Discussion and Analysis. These transactions with our bottling affiliates are reflected in the Consolidated Statement of Income as shown.

	2002	2001	2000
Net sales	**$3,455**	$2,262	$1,978
Selling, general and administrative expenses	**$83**	$57	$5

As of December 28, 2002, the receivables from these bottling affiliates were $126 million and payables to these affiliates were $122 million. As of December 29, 2001, the receivables from these bottling affiliates were $119 million and payables to these affiliates were $108 million. Such amounts are settled on

terms consistent with other trade receivables and payables. See Note 9 regarding our guarantee of certain PBG debt.

In addition, we coordinate, on an aggregate basis, the negotiation and purchase of sweeteners and other raw materials requirements for certain of our bottlers with suppliers. Once we have negotiated the contracts, the bottlers order and take delivery directly from the supplier and pay the suppliers directly. Consequently, these transactions are not reflected in our consolidated financial statements. As the contracting party, we could be liable to these suppliers in the event of any nonpayment by our anchor bottlers, but we consider this exposure to be remote.

NOTE 9 – DEBT OBLIGATIONS AND COMMITMENTS

	2002	2001
Short-term debt obligations		
Current maturities of long-term debt	**$ 485**	$ 319
Other borrowings (5.7% and 6.4%)	**452**	410
Amounts reclassified to long-term debt	**(375)**	(375)
	$ 562	$ 354
Long-term debt obligations		
Short-term borrowings, reclassified	**$ 375**	$ 375
Notes due 2003-2026 (4.0% and 4.1%)	**1,716**	1,986
Zero coupon notes, $625 million due 2003-2012 (12.6%)	**338**	356
Other, due 2003-2015 (7.6% and 6.9%)	**243**	253
	2,672	2,970
Less: current maturities of long-term debt obligations	**(485)**	(319)
	$2,187	$2,651

Short-term borrowings are reclassified to long-term when we have the intent and ability, through the existence of the unused lines of credit, to refinance these borrowings on a long-term basis. The weighted average interest rates in the table shown include the impact of outstanding interest rate swaps at year-end. See Note 10 for additional information on our interest rate swaps.

At year-end 2002, we maintained $750 million in corporate lines of credit subject to normal banking terms and conditions. These credit facilities support short-term debt issuances and remained unused at year-end 2002. Of the $750 million, $375 million expires in June 2003 with the remaining $375 million expiring in June 2007. Upon consent of PepsiCo and the lenders, these facilities can be extended an additional year. In addition, $270 million of our debt was outstanding on various lines of credit maintained for our international divisions. These lines of credit are subject to normal banking terms and conditions and are committed to the extent of our borrowings.

Long-Term Contractual Commitments and Off-Balance Sheet Arrangements

		Payments Due by Year			
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term contractual commitments(a)					
Long-term debt obligations(b)	$2,187	$ –	$ 603	$ 699	$ 885
Non-cancelable operating leases	526	129	169	91	137
Purchasing commitments	3,307	773	1,006	569	959
Capital equipment commitments	34	34	–	–	–
Marketing commitments	251	75	115	52	9
Other commitments	31	23	8	–	–
	$6,336	$1,034	$1,901	$1,411	$1,990

(a) Reflects non-cancelable commitments as of December 28, 2002 based on year-end foreign exchange rates.

(b) Excludes current maturities of long-term debt of $485 million which are classified within current liabilities.

Long-term contractual commitments, except for our long-term debt obligations, are not recorded in our Consolidated Balance Sheet. Non-cancelable purchasing, capital equipment and marketing commitments are in the normal course of our business for our projected needs. Our non-cancelable capital equipment commitments primarily relate to our new concentrate plant in Ireland. As bottler funding is negotiated on an annual basis, these commitments are not reflected in our long-term contractual commitments. See Note 8 regarding our commitments to noncontrolled bottling affiliates.

Off-Balance Sheet Arrangements

It is not our business practice to enter into off-balance sheet arrangements nor is it our policy to issue guarantees to our bottlers, noncontrolled affiliates or third parties. However, certain guarantees were necessary to facilitate the separation of our bottling and restaurant operations from us. In connection with these transactions, we have guaranteed $2.3 billion of Bottling Group, LLC's long-term debt through 2012 and $68 million of YUM! Brands, Inc. (YUM) outstanding obligations, primarily property leases. The terms of our Bottling Group, LLC debt guarantee are intended to preserve the structure of PBG's separation from us and our payment obligation would be triggered if Bottling Group, LLC failed to perform under these debt obligations or the structure significantly changed. Our guarantees of certain obligations ensured YUM's continued use of these properties. These guarantees would require our cash payment if YUM failed to perform under these lease obligations.

NOTE 10 – RISK MANAGEMENT

We are exposed to the risk of loss arising from adverse changes in:

- commodity prices, affecting the cost of our raw materials and fuel;
- foreign exchange risks;
- interest rates on our debt and short-term investment portfolios; and
- stock prices.

In the normal course of business, we manage these risks through a variety of strategies, including the use of derivative instruments designated as cash flow and fair value hedges. See "Our Market Risks" in Management's Discussion and Analysis for further unaudited information on our hedges.

For cash flow hedges, changes in fair value are generally deferred in accumulated other comprehensive loss within shareholders' equity until the underlying hedged item is recognized in net income. For fair value hedges, changes in fair value are recognized immediately in earnings, consistent with the underlying hedged item. Hedging transactions are limited to an underlying exposure. As a result, any change in the value of our derivative instruments would be substantially offset by an opposite change in the value of the underlying hedged items. Hedging ineffectiveness and a net earnings impact occur when the change in the value of the hedge does not offset the change in the value of the underlying hedged item. We do not use derivative instruments for trading or speculative purposes and, to manage credit risk, we limit our exposure to individual counterparties.

Commodity Prices

We are subject to commodity price risk because our ability to recover increased costs through higher pricing may be limited in the competitive environment in which we operate. This risk is managed through the use of fixed-price purchase orders, pricing agreements, geographic diversity and cash flow hedges. We use cash flow hedges, with terms of no more than two years, to hedge price fluctuations in a portion of our anticipated commodity purchases, primarily for corn, natural gas, oats, packaging materials and wheat. Any ineffectiveness is recorded immediately. However, our commodity hedges have not had any material ineffectiveness. We classify both the earnings and cash flow impact from these hedges consistent with the underlying hedged item.

During the next 12 months, we expect to reclassify gains of approximately $4 million from accumulated other comprehensive loss into net income.

Foreign Exchange

Our operations outside of the United States generated 34% of our net sales of which Mexico, the United Kingdom and Canada contributed 19%. As a result, we are exposed to foreign currency risks from unforeseen economic changes and political unrest. On occasion, we enter into fair value hedges, primarily forward contracts, to reduce the effect of foreign exchange rates. Ineffectiveness resulting from our fair value hedges was not material to our results of operations.

In 2002, we hedged 2.1 billion Mexican pesos related to our net investment in Pepsi-Gemex which resulted in a $5 million gain upon our disposal of Pepsi-Gemex described in Note 8.

Interest Rates

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We have used interest rate swaps to effectively change the interest rate of specific debt issuances, with the objective of reducing our overall borrowing costs.

Late in 2002, we terminated the majority of our interest rate swaps resulting in a gain of approximately $23 million which will be amortized over the remaining term of the related debt. As a result, 12% of our debt at year-end 2002 is exposed to variable interest rates compared to approximately 45% at year-end 2001.

Stock Prices

The portion of our deferred compensation liability that is based on our stock price is subject to market risk. We hold prepaid forward contracts to manage this risk. Changes in the fair value of these contracts are recognized immediately in earnings and are offset by changes in the related compensation liability.

Fair Value

All derivative instruments are recognized in our Consolidated Balance Sheet at fair value. The fair value of our derivative instruments is generally based on quoted market prices.

Book and fair values of our derivative and financial instruments are as follows:

	2002		2001	
	Book Value	**Fair Value**	Book Value	Fair Value
Assets				
Cash and cash equivalents	**$1,638**	**$1,638**	$683	$683
Short-term investments[(a)]	**$207**	**$207**	$966	$966
Forward exchange contracts[(b)]	**$2**	**$2**	$6	$6
Commodity contracts[(b)]	**$6**	**$6**	$1	$1
Prepaid forward contracts[(b)]	**$96**	**$96**	$65	$65
Interest rate swaps[(b)]	**$1**	**$1**	$32	$32
Liabilities				
Forward exchange contracts[(c)]	**$3**	**$3**	$2	$2
Commodity contracts[(c)]	**$2**	**$2**	$17	$17
Debt obligations	**$2,749**	**$3,134**	$3,005	$3,270

Included in the Consolidated Balance Sheet under the captions noted above or as indicated below.

(a) Includes $82 million at December 28, 2002 and $89 million at December 29, 2001 of mutual fund investments used to manage a portion of market risk arising from our deferred compensation liability.

(b) Included within prepaid expenses and other current assets.

(c) Included within accounts payable and other current liabilities.

This table excludes guarantees, including our guarantee of $2.3 billion of Bottling Group, LLC's long-term debt. The guarantee had a fair value of $35 million at December 28, 2002 and $59 million at December 29, 2001 based on an external estimate of the cost to us of transferring the liability to an independent financial institution. See Note 9 for additional information on our guarantees.

NOTE 11 – NET INCOME PER COMMON SHARE

Basic net income per common share is net income available to common shareholders divided by the weighted average of common shares outstanding during the period. Diluted net income per common share is calculated using the weighted average of common shares outstanding adjusted to include the effect that would occur if in-the-money employee stock options were exercised and preferred shares were converted into common shares. Options to purchase 69.4 million shares in 2002, 0.4 million shares in 2001 and 0.1 million shares in 2000 were not included in the calculation of diluted earnings per common share because these options were out-of-the-money.

The computations of basic and diluted net income per common share are as shown.

	2002		2001		2000	
	Income	**Shares[(a)]**	Income	Shares[(a)]	Income	Shares[(a)]
Net income	**$3,313**		$2,662		$2,543	
Preferred shares:						
Dividends	**(4)**		(4)		(4)	
Redemption	**–**		(1)		–	
Net income available for common shareholders	**$3,309**	**1,753**	$2,657	1,763	$2,539	1,748
Basic net income per common share	**$1.89**		$1.51		$1.45	
Net income available for common shareholders	**$3,309**	**1,753**	$2,657	1,763	$2,539	1,748
Dilutive securities:						
Stock options	**–**	**32**	–	39	–	38
ESOP convertible preferred stock	**3**	**3**	3	4	2	4
Unvested stock awards	**–**	**1**	–	1	–	1
Diluted	**$3,312**	**1,789**	$2,660	1,807	$2,541	1,791
Diluted net income per common share	**$1.85**		$1.47		$1.42	

(a) Weighted average common shares outstanding.

NOTE 12 – PREFERRED AND COMMON STOCK

As of December 28, 2002, there were 3.6 billion shares of common stock and 3 million shares of convertible preferred stock authorized. The preferred stock was issued only for an employee stock ownership plan (ESOP) established by Quaker and these shares are redeemable by the ESOP participants. The preferred stock accrues dividends at an annual rate of $5.46 per share. At year-end 2002, there are 803,953 preferred shares issued and 602,353 shares outstanding. Each share is convertible at the option of the holder into 4.9625 shares of common stock. The preferred shares may be called by us upon written notice at $78 per share plus accrued and unpaid dividends.

As of December 28, 2002, 0.6 million outstanding shares of preferred stock with a fair value of $127 million and 20 million shares of common stock were held in the accounts of ESOP participants. Quaker made the final award to its ESOP plan in June 2001.

Preferred stock activity:

	2002		2001		2000	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Preferred stock						
Balance, beginning of year	**0.8**	**$41**	1.3	$100	1.3	$100
Adjustment to effect merger	**–**	**–**	(0.5)	(59)	–	–
Balance, end of year	**0.8**	**$41**	0.8	$ 41	1.3	$100
Repurchased preferred stock						
Balance, beginning of year	**0.1**	**$15**	0.5	$ 51	0.4	$ 39
Redemptions	**0.1**	**33**	0.1	23	0.1	12
Adjustment to effect merger	**–**	**–**	(0.5)	(59)	–	–
Balance, end of year	**0.2**	**$48**	0.1	$ 15	0.5	$ 51

NOTE 13 – ACCUMULATED OTHER COMPREHENSIVE LOSS

Comprehensive income is a measure of income which includes both net income and other comprehensive loss. Other comprehensive loss results from items deferred on the balance sheet in shareholders' equity. Other comprehensive loss was $26 million in 2002, $272 million in 2001 and $289 million in 2000. The accumulated balances for each component of other comprehensive loss were as shown.

	2002	2001	2000
Currency translation adjustment	**$(1,531)**	$(1,587)	$(1,369)
Cash flow hedges, net of tax(a)	**–**	(18)	–
Minimum pension liability adjustment(b)	**(142)**	(43)	(5)
Other	**1**	2	–
Accumulated other comprehensive loss	**$(1,672)**	$(1,646)	$(1,374)

(a) Includes $4 million in 2002 and $7 million in 2001 for our share of our equity investees' accumulated derivative losses. In addition, 2001 includes $3 million related to the cumulative effect of adopting SFAS 133.

(b) Net of taxes of $72 million in 2002, $22 million in 2001 and $3 million in 2000. Also, includes $99 million in 2002 and $29 million in 2001 for our share of our equity investees' minimum pension liability adjustments.

NOTE 14 – SUPPLEMENTAL FINANCIAL INFORMATION

	2002	2001	2000
Accounts receivable			
Trade receivables	**$1,924**	$1,663	
Other receivables	**723**	600	
	2,647	2,263	
Allowance, beginning of year	**121**	126	$109
Charged to expense	**38**	41	42
Other additions(a)	**3**	2	8
Deductions(b)	**(46)**	(48)	(33)
Allowance, end of year	**116**	121	$126
Net receivables	**$2,531**	$2,142	
Inventory(c)			
Raw materials	**$ 525**	$ 535	
Work-in-process	**214**	205	
Finished goods	**603**	570	
	$1,342	$1,310	
Accounts payable and other liabilities			
Accounts payable	**$1,543**	$1,238	
Accrued selling, advertising and marketing	**716**	861	
Accrued compensation and benefits	**806**	789	
Dividends payable	**259**	255	
Insurance accruals	**168**	158	
Other current liabilities	**1,506**	1,160	
	$4,998	$4,461	
Other liabilities(d)	**$4,226**	$3,876	
Other supplemental information			
Rent expense	**$194**	$165	$171
Interest paid	**$119**	$159	$226
Income taxes paid	**$1,056**	$857	$876
Acquisitions(e)			
Fair value of assets acquired	**$ 626**	$ 604	$ 80
Cash paid and debt issued	**(351)**	(432)	(98)
Liabilities assumed	**$ 275**	$ 172	$(18)

(a) Includes acquisitions and currency translation effects.

(b) Includes accounts written off and currency translation effects.

(c) Inventories are valued at the lower of cost or market. Cost is determined using the average, first-in, first-out (FIFO) or last-in, first-out (LIFO) methods. Approximately 19% in 2002 and 20% in 2001 of the inventory cost was computed using the LIFO method. The differences between LIFO and FIFO methods of valuing these inventories are not material.

(d) Includes reserves for tax positions when, despite our belief that our position is fully supportable, we believe that our position is likely to be challenged and that we may not succeed.

(e) Includes our acquisition of the Wotsits brand in the United Kingdom for $228 million and the SoBe brand in the United States for $337 million in 2001.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

To Our Shareholders:

Management is responsible for the reliability of the consolidated financial statements and related notes. The financial statements were prepared in conformity with generally accepted accounting principles and include amounts based upon our estimates and assumptions, as required. The financial statements have been audited by our independent auditors, KPMG LLP, who were given free access to all financial records and related data, including minutes of the meetings of the Board of Directors and Committees of the Board. We believe that our representations to the independent auditors are valid and appropriate.

Management maintains a system of internal controls designed to provide reasonable assurance as to the reliability of the financial statements, as well as to safeguard assets from unauthorized use or disposition. The system is supported by formal policies and procedures, including an active Code of Conduct program intended to ensure employees adhere to the highest standards of personal and professional integrity. Our internal audit function monitors and reports on the adequacy of and compliance with the internal control system, and appropriate actions are taken to address significant control deficiencies and other opportunities for improving the system as they are identified. The Audit Committee of the Board of Directors consists solely of directors who are not salaried employees and who are, in the opinion of the Board of Directors, free from any relationship that would interfere with the exercise of independent judgment as a committee member. The Committee meets during the year with representatives of management, including internal auditors and the independent auditors to review our financial reporting process and our controls to safeguard assets. Both our independent auditors and internal auditors have free access to the Audit Committee.

Although no cost-effective internal control system will preclude all errors and irregularities, we believe our controls as of December 28, 2002 provide reasonable assurance that the financial statements are reliable and that our assets are reasonably safeguarded.

Peter Bridgman

Peter A. Bridgman
Senior Vice President and Controller

Indra K. Nooyi
President and Chief Financial Officer

Steven S Reinemund
Chairman of the Board and Chief Executive Officer

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
PepsiCo, Inc.:

We have audited the accompanying Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of December 28, 2002 and December 29, 2001 and the related Consolidated Statements of Income, Cash Flows and Common Shareholders' Equity for each of the years in the three-year period ended December 28, 2002 appearing on pages 29, 36 and 39 through 54. These consolidated financial statements are the responsibility of PepsiCo, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PepsiCo, Inc. and Subsidiaries as of December 28, 2002 and December 29, 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 28, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the consolidated financial statements, PepsiCo, Inc. in 2002 adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets."

KPMG LLP

KPMG LLP
New York, New York
February 6, 2003

SELECTED FINANCIAL DATA

QUARTERLY

(in millions except per share amounts, unaudited)	2002	2001	2002	2001	2002	2001	2002	2001
	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
Net sales[(a)]	**$ 5,101**	4,700	**6,178**	5,865	**6,376**	5,981	**7,457**	6,966
Gross profit	**$ 2,783**	2,556	**3,366**	3,197	**3,469**	3,254	**3,997**	3,755
Merger-related costs[(b)]	**$ 36**	–	**65**	–	**33**	235	**90**	121
Net income	**$ 651**	570	**888**	798	**969**	627	**805**	667
Net income per common share – basic[(c)]	**$ 0.37**	0.33	**0.50**	0.45	**0.55**	0.35	**0.46**	0.38
Net income per common share – diluted[(c)]	**$ 0.36**	0.32	**0.49**	0.44	**0.54**	0.34	**0.46**	0.37
Cash dividends declared per common share[(d)]	**$ 0.145**	0.14	**0.15**	0.145	**0.15**	0.145	**0.15**	0.145
Stock price per share[(e)]								
High	**$ 51.48**	49.50	**53.50**	46.61	**52.00**	47.99	**45.30**	50.46
Low	**$ 47.43**	40.25	**49.88**	40.90	**35.01**	43.12	**34.00**	45.76
Close	**$ 50.90**	43.85	**50.90**	43.26	**37.99**	47.40	**41.67**	49.05

As a result of the adoption of SFAS 142 and the consolidation of SVE in 2002, the data provided above is not comparable.

(a) In 2001, restated to reflect the adoption of EITF 01-9 in 2002 which reduced net sales and selling, general and administrative expenses by $630 million in the first quarter, $848 million in the second quarter, $925 million in the third quarter and $1 billion in the fourth quarter.

(b) Merger-related costs (Note 3):

	2002	2001	2002	2001	2002	2001	2002	2001
	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
Pre-tax	**$36**	–	**$65**	–	**$33**	$235	**$90**	$121
After-tax	**$30**	–	**$52**	–	**$27**	$231	**$81**	$91
Per share	**$0.02**	–	**$ 0.02**	–	**$ 0.02**	$ 0.13	**$ 0.05**	$0.05

(c) In 2001, the net income per common share amounts prior to the effective date of the merger are calculated by (1) combining the weighted average of pre-merger PepsiCo and Quaker common stock after adjusting the number of shares of Quaker common stock, to reflect the exchange ratio of 2.3 shares of PepsiCo common stock for each share of Quaker common; and (2) dividing the combined net income by the result in (1) above.

(d) In 2001, cash dividends declared per common share are those of PepsiCo prior to the effective date of the merger.

(e) Represents the composite high and low sales price and quarterly closing prices for one share of PepsiCo common stock. Pre-merger amounts are those of PepsiCo prior to the effective date of the merger.

5-YEAR SUMMARY

(in millions except per share amounts, unaudited)	2002	2001	2000	1999	1998
Net sales	**$ 25,112**	23,512	22,337	22,183	24,605
Net income	**$ 3,313**	2,662	2,543	2,505	2,278
Income per common share – basic	**$ 1.89**	1.51	1.45	1.41	1.27
Income per common share – diluted	**$ 1.85**	1.47	1.42	1.38	1.23
Cash dividends declared per common share	**$ 0.595**	0.575	0.555	0.535	0.515
Total assets	**$ 23,474**	21,695	20,757	19,948	25,170
Long-term debt	**$ 2,187**	2,651	3,009	3,527	4,823

As a result of the adoption of SFAS 142 and the consolidation of SVE in 2002, the bottling deconsolidation in 1999, the Tropicana acquisition late in 1998 and items identified below, the data provided above is not comparable.

- Net sales have been restated to reflect the adoption of EITF 01-9 in 2002 which reduced net sales and selling, general and administrative expenses by $3.4 billion in 2001, $3.1 billion in 2000, $2.9 billion in 1999 and $2.6 billion in 1998.
- Includes merger-related costs of:

	2002	2001
Pre-tax	**$224**	$356
After-tax	**$190**	$322
Per share	**$0.11**	$0.18

- Includes other impairment and restructuring charges of:

	2001	2000	1999	1998
Pre-tax	$31	$184	$73	$482
After-tax	$19	$111	$45	$379
Per share	$0.01	$0.06	$0.02	$0.21

- The 2000 fiscal year consisted of fifty-three weeks compared to fifty-two weeks in our normal fiscal year. The 53rd week increased 2000 net sales by an estimated $294 million and net income by an estimated $44 million (or $0.02 per share).
- In 1999, includes a net gain on bottling transactions of $1.0 billion ($270 million after-tax or $0.15 per share) and a tax provision related to the PepCom transaction of $25 million ($0.01 per share), and a Quaker favorable tax adjustment of $59 million (or $0.03 per share).
- In 1998, includes a tax benefit of $494 million (or $0.27 per share) related to final agreement with the IRS to settle a case related to concentrate operations in Puerto Rico.
- Cash dividends per common share are those of pre-merger PepsiCo prior to the effective date of the merger.

Common Stock Information

Stock Trading Symbol – PEP

Stock Exchange Listings

The New York Stock Exchange is the principal market for PepsiCo common stock, which is also listed on the Amsterdam, Chicago, Swiss and Tokyo Stock Exchanges.

Shareholders

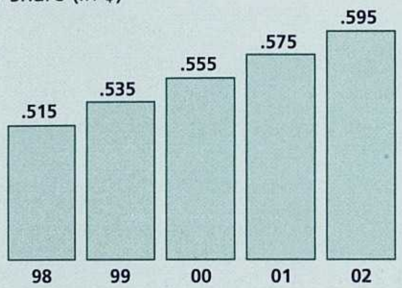
At year-end 2002, there were approximately 220,000 shareholders of record.

Dividend Policy

Quarterly cash dividends are usually declared in November, January, May and July and paid at the beginning of January and the end of March, June and September. The dividend record dates for these payments are: December 6, 2002, March 14, June 13, and September 12, 2003. Quarterly cash dividends have been paid since PepsiCo was formed in 1965. Amounts in the chart reflect pre-merger PepsiCo for the dates prior to our merger with The Quaker Oats Company.

Cash Dividends Declared

Per Share (In $)



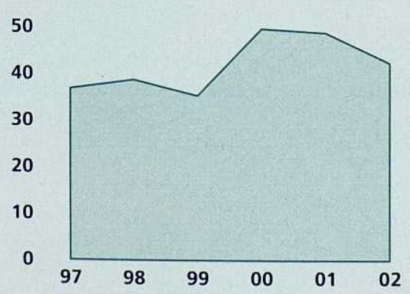
Stock Performance

PepsiCo was formed through the 1965 merger of Pepsi-Cola Company and Frito-Lay, Inc. A $1,000 investment in our stock made December 31, 1997 was worth about $1,235 on December 31, 2002, assuming the reinvestment of dividends. This performance represents a compounded annual growth rate of 4.4%.

The closing price for a share of PepsiCo common stock on the New York Stock Exchange was the price as reported by Bloomberg for the years ending 1997-2002. These amounts reflect the closing price of pre-merger PepsiCo for the dates prior to our merger with The Quaker Oats Company. Past performance is not necessarily indicative of future returns on investments in PepsiCo common stock.

Year-end Market Price of Stock

Based on Calendar Year-end (In $)



Shareholder Information

Annual Meeting

The Annual Meeting of Shareholders will be held at Frito-Lay Corporate Headquarters, 7701 Legacy Drive, Plano, Texas, on Wednesday, May 7, 2003 at 11:00 a.m. local time. Proxies for the meeting will be solicited by an independent proxy solicitor. This Annual Report is not part of the proxy solicitation.

Inquiries Regarding Your Stock Holdings

Registered Shareholders (shares held by you in your name) should address communications concerning statements, dividend payments, address changes, lost certificates and other administrative matters to:

The Bank of New York
Shareholder Services Department
P.O. Box 11258
Church Street Station
New York, NY 10286-1258
Telephone: (800) 226-0083
(610) 312-5303 (outside U.S.)
E-mail: shareowner-svcs@bankofny.com
Web site: http://stockbny.com

or

Manager Shareholder Relations
PepsiCo, Inc.
Purchase, NY 10577
Telephone: (914) 253-3055

In all correspondence or telephone inquiries, please mention PepsiCo, your name as printed on your stock certificate, your Social Security number, your address and telephone number.

Beneficial Shareholders (shares held by your broker in the name of the brokerage house) should direct communications on all administrative matters to your stockbroker.

SharePower Participants (employees with SharePower options) should address all questions regarding your account, outstanding options or shares received through option exercises to:

Merrill Lynch/SharePower
Stock Option Unit
1600 Merrill Lynch Drive
Mail Stop 06-02-SOP
Pennington, NJ 08534
Telephone: (800) 637-6713
(U.S., Puerto Rico and Canada)
(609) 818-8800 (all other locations)

In all correspondence, please provide your account number (for U.S. citizens, this is your Social Security number), your address, your telephone number and mention PepsiCo SharePower. For telephone inquiries, please have a copy of your most recent statement available.

Employee Benefit Plan Participants:

Common Stock Purchase Program
Fidelity Investments®
P.O. Box 77001
Cincinnati, OH 45277-0002
Telephone: (800) 544-9354
(U.S., Puerto Rico and Canada)
(800) 544-0275 (all other locations)
E-mail, go to www.fidelity.com, select "Customer Service," then "Contact Us."

PepsiCo 401(k) Plan
Fidelity Investments®
P.O. Box 9029
Boston, MA 02205
Telephone: (800) 883-4015
(877) 833-9900 (outside U.S.)
Please have a copy of your most recent statement available when calling with inquiries.

Shareholder Services

Dividend Reinvestment Plan

A brochure explaining this convenient plan, for which PepsiCo pays all administrative costs, is available from our transfer agent:

The Bank of New York
Dividend Reinvestment Department
P.O. Box 1958
Newark, NJ 07101-9774
Telephone: (800) 226-0083

Direct Deposit of Dividends

Information on the Direct Deposit service is available from our transfer agent:

The Bank of New York
Shareholder Services Department
P.O. Box 11258
Church Street Station
New York, NY 10286-1258
Telephone: (800) 226-0083
(610) 312-5303 (outside U.S.)

Financial and Other Information

PepsiCo's 2003 quarterly earnings releases are expected to be issued the weeks of April 14, July 7, October 6, 2003 and February 2, 2004.

Earnings and other financial results, corporate news and other company information are available on PepsiCo's web site: **www.pepsico.com**

Copies of PepsiCo's SEC reports, earnings and other financial releases, corporate news and additional company information are available free of charge. Contact PepsiCo's Manager of Shareholder Relations at (914) 253-3055.

If you have questions regarding PepsiCo's performance, contact:

Kathleen Luke
Vice President, Investor Relations
PepsiCo, Inc.
Purchase, NY 10577
Telephone: (914) 253-3691

Independent Auditors

KPMG LLP
345 Park Avenue
New York, NY 10154-0102
Telephone: (212) 758-9700

Corporate Headquarters

PepsiCo, Inc.
700 Anderson Hill Road
Purchase, NY 10577
Telephone: (914) 253-2000

Design: Eisenman Associates
Printing: L.P. Thebault
Photography: Stephen Wilkes, Alen MacWeeney, Ben Rosenthal
♻ Printed on recycled and recyclable paper.

Performance to cheer about...

- Comparable earnings per share grew 14%.
- Division operating profit grew 11%.
- Volume and net revenues grew 4%.